Sebastian Knoll

Cross-Business Synergies

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A Typology of Cross-Business Synergies and a Mid-Range Theory of Continuous Growth Synergy Realization

Wirth a foreword by Prof. Dr. Günter Müller-Stewens

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Foreword

In recent years, the realization of cross-business synergies grew into a major concern of corporate management.

Asked about their most pressing issues on the corporate agenda, managers from different multi-business firms in industries such as telecommunications, engineering, electronics, finance, energy, and automotive, mentioned the realization of cross-business synergies. Nevertheless, ever since Igor Ansoff introduced cross-business synergies into the field in the 1960s, research in strategy and organization has largely neglected their direct investigation. The questions of what cross-business synergies actually are and how they are realized remain largely unexplored.

With this dissertation, the author aims at closing this gap in two steps. As the concept of synergy in the multi-business firm remains underspecified, he first develops a theory-based typology of cross-business synergies. In particular, the author conceptualizes two new types of cross-business synergies, which contrast with the dominant efficiency-focused view of synergy in the multi-business firm (economies of scope): Growth synergies (profitable growth advantages from recombining complementary operative resources across businesses) and corporate management synergies (performance advantages from leveraging corporate management capabilities across businesses). The concept of corporate management synergies is illustrated by a comprehensive case study of General Electric.

In a second step, the author focuses on growth synergies and inducts a mid-range theory for their continuous realization from a longitudinal in-depth single case study. He suggests that the continuous realization of growth synergies is associated with a strategic concept that establishes a selective focus on specific growth synergy opportunities, an organization design that fosters decentralized collaboration between businesses and motivates productive business unit self-interest, and a corporate management approach that guides and balances this self-interest in an evolutionary fashion.

The primary contribution of this dissertation is new insight into the nature of the corporate effect (i.e. value creation at the corporate level). The author further attempts to make a broader contribution to theories of strategy and organization. First, this dissertation suggests a novel organization design that stimulates business unit self-interest and channels this self-interest on productive cross-business collaborations. Thereby, the author proposes a more differentiated view on the corporate strategy-structure choice of related diversifiers than can be found in the existing literature. Second, by providing new insights into the effective (re)combination of complementary resources across businesses, which is the conceptual mechanism underlying the realization of growth synergies,

this dissertation advances emerging research on a recombinative rationale of the M-form as well as research on dynamic capabilities, coevolutionary change and cross-business innovation.

Overall, this study presents interesting insights into the largely unexplored field of cross-business synergies from a strategic and organizational point of view, a field which has so far been left to business-and-society literature. For this reason, the work of Sebastian Knoll advances theory and forms a valuable basis for future research. At the same time, he managed to provide helpful frameworks and tools that make this study equally relevant for business practitioners.

Prof. Dr. Günter Müller-Stewens

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My time in St. Gallen has been intellectually challenging and extremely enriching, something I would never want to miss. At the heart of this extraordinary experience were the people who accompanied my way. In the name of all, some shall be mentioned.

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St. Gallen, im Oktober 2007 Sebastian Knoll

Table of Contents (overview)

Foreword V

Acknowledgements VII

Table of Contents (overview) IX

Table of Contents (detailed) XI

List of Figures XVII

List of Abbreviations XXI

1 Introduction 1

PART I: INTRODUCING AND CLASSIFYING CROSS-BUSINESS SYNERGIES 13

2 Concept and Characteristics of Cross-business Synergies 14

3 Types of Cross-business Synergies 24

4 Summary and Discussion of Part I 100

PART II: REALIZING GROWTH SYNERGIES 107

5 Literature Review: Operative Synergies 109

6 Empirical Approach 136

7 Exploratory Work: Strategies for Growth Synergies 160

8 Case Study: The continuous realization of growth synergies 180

9 Results: Key success factors for the continuous realization of growth synergies 231

10 Summary and Discussion of Part II 299

PART III: CONCLUSION 334

Appendices 337

References 357

Table of Contents (detailed)

Foreword ..... **V**

Acknowledgements ..... **VII**

Table of Contents (overview) ..... **IX**

Table of Contents (detailed) ..... **XI**

List of Figures ..... **XVII**

List of Abbreviations ..... **XXI**

1 Introduction **1**

1.1 Research objectives and guiding questions 1

1.2 Key results and contribution 6

1.2.1 Key Results 6

1.2.2 Contribution to theory and managerial practice 8

1.3 Outline of dissertation 10

PART I: INTRODUCING AND CLASSIFYING CROSS-BUSINESS SYNERGIES **13**

2 Concept and Characteristics of Cross-business Synergies **14**

2.1 The concept of synergy 14

2.2 Definition of cross-business synergies 15

2.3 The impact of cross-business synergies on corporate advantage 18

2.4 The existence of cross-business synergies 22

2.5 Summary and discussion 23

3 Types of Cross-business Synergies **24**

3.1 Operative synergies 26

3.1.1 Classification of operative synergies 26

3.1.2 Impact of operative synergies on corporate advantage 32

3.1.3 Summary and Discussion 34

3.2 Market power synergies 34

3.2.1 Classification of market power synergies 35

3.2.2 Impact of market power synergies on corporate advantage 37
3.2.3 Summary and Discussion 38
3.3 Financial synergies 38
3.3.1 Classification of financial synergies 38
3.3.2 Impact of financial synergies on corporate advantage 44
3.3.3 Summary and Discussion 45
3.4 Corporate management synergies 47
3.4.1 Existing research referring to corporate management synergies 48
3.4.2 Characteristics and classification of corporate management synergies 50
3.4.3 Impact of corporate management synergies on corporate advantage 53
3.4.4 An illustrative case study of corporate management synergies 55
3.4.5 Summary and Discussion 98
4 Summary and Discussion of Part I 100
4.1 Summary 100
4.2 Implications for theory and managerial practice 103
4.2.1 Implications for theory 103
4.2.2 Implications for managerial practice 105
PART II: REALIZING GROWTH SYNERGIES 107
5 Literature Review: Operative Synergies 109
5.1 Corporate Strategy Research 110
5.1.1 Early Diversification-performance research 110
5.1.2 Resource-based diversification-performance research 112
5.1.3 Conclusion of insights from studies in corporate strategy research 116
5.2 Corporate Design Research 116
5.2.1 Organizational Context Research 117
5.2.2 Role of the Corporate Center 122
5.2.3 Conclusion of insights from corporate design research 126

5.3 Corporate Process Research 126
5.3.1 Cross-business knowledge and resource transfer 126
5.3.2 Patching 128
5.3.3 Coevolving 129
5.3.4 Cross-business synergy initiatives 130
5.3.5 Conclusion of insights from corporate process research 132
5.4 Summary and Discussion 132
5.4.1 Managerial insights 132
5.4.2 Gap and research question 134
6 Empirical Approach 136
6.1 Methodology and Research Approach 136
6.1.1 Methodological Basis: Post-positivism and Grounded theory 136
6.1.2 Research Approach: Case Studies 139
6.2 Research Design 142
6.2.1 Research Process 142
6.2.2 Specification of Research Questions 145
6.2.3 Case Selection 146
6.2.4 Data Collection 147
6.2.5 Data Analysis 151
6.3 Quality of research: Validity and reliability 155
6.4 Summary and Discussion 159
7 Exploratory Work: Strategies for Growth Synergies 160
7.1 Joint market penetration 161
7.1.1 Cross-selling and lead-sharing 161
7.1.2 Cross-business bundling 162
7.1.3 Umbrella brand 164
7.1.4 Joint marketing initiatives 165

7.2 Joint offering development 167
7.2.1 Integrated cross-business solutions 167
7.2.2 Innovative cross-business fusions 169
7.2.3 Joint development platforms 170
7.3 Joint market development 172
7.3.1 Joint development of new geographical markets 172
7.3.2 Joint development of new market segments with common customers 172
7.4 Joint diversification 174
7.4.1 Joint diversification through expansion into new markets 174
7.4.2 Joint diversification through the creation of new markets 175
7.5 Corporate Growth Path: Timing of growth synergy strategies 176
7.6 Summary and Discussion 178
8 Case Study: The continuous realization of growth synergies 180
8.1 Company Background 180
8.1.1 Company Overview 180
8.1.2 Corporate Structure 180
8.1.3 Corporate Strategy 183
8.2 'One ElectroCorp' – Alignment for Growth Synergies 185
8.2.1 Objective of the One ElectroCorp initiative 185
8.2.2 Background of the One ElectroCorp initiative 185
8.2.3 Initiation of the One ElectroCorp initiative 188
8.2.4 Success of the One ElectroCorp initiative 189
8.3 Strategic Concept for the continuous realization of growth synergies 190
8.3.1 Norm Strategies for achieving growth synergies 190
8.3.2 Cross-business domains for the realization of growth synergies 195
8.3.3 Summary of Strategic Concept 201
8.4 Corporate Design for the Continuous Realization of Growth Synergies 202

8.4.1 Alignment of Structures 203
8.4.2 Alignment of Management Systems and Processes 216
8.4.3 Alignment of rules and standards 225
8.4.4 Alignment of Human Resource Practices 226
8.4.5 Alignment of the Normative Frame: Vision, Mission and Values 227
8.4.6 Summary of corporate design 229
8.5 Summary 230
9 Results: Key success factors for the continuous realization of growth synergies 231
9.1 Strategic Concept: Selective focus 232
9.1.1 Strategic Frame 233
9.1.2 Narrow Scope on adequate domains 237
9.1.3 Horizontal Strategies 243
9.1.4 Complementarity of strategic concept elements 250
9.1.5 Summary and Propositions 252
9.2 Organization Design: Decentralized Collaboration 255
9.2.1 Decentralization 255
9.2.2 Strong business-specific financial controls 259
9.2.3 Corporate-level incentives 262
9.2.4 Strong integration mechanisms 264
9.2.5 Complementarity of organization design elements 279
9.2.6 Summary and Propositions 281
9.3 Corporate Management: Guided and balanced self-interest 284
9.3.1 The approach of guided and balanced self-interest 284
9.3.2 The role of the corporate center in guided and balanced self-interest 289
9.3.3 Evaluation of corporate management approach 295
9.3.4 Summary and Propositions 296

10 Summary and Discussion of Part II 299

10.1 Key findings 299

10.1.1 Insights into the sources and nature of growth synergies 299

10.1.2 Mid-range theory of continuous growth synergy realization 300

10.1.3 Secondary work-structures 305

10.2 Implications for theory 308

10.2.1 Strategy 308

10.2.2 Organization Theory 313

10.3 Implications for managerial practice 326

10.4 Limitations 330

10.5 Directions for future research 331

PART III: CONCLUSION 334

Appendices 337

References 357

List of Figures

Figure 1-1: Outline of dissertation 12

Figure 2-1: Definition of synergy as net effect 15

Figure 2-2: Selected studies investigating corporate effects 22

Figure 3-1: Types of cross-business synergies 25

Figure 3-2: Comparison of efficiency and growth synergies 31

Figure 3-3: Strategies for achieving market power synergies 35

Figure 3-4: Strategies to derive value from financial synergies 39

Figure 3-5: GE's Outperformance in every market cycle 46

Figure 3-6: Corporate strategic and organization design capabilities 53

Figure 3-7: Corporate Management Synergies at GE 56

Figure 3-8: GE Organic Growth Framework 65

Figure 3-9: GE's corporate value framework 68

Figure 3-10: Description of GE's basic actions 69

Figure 3-11: Operationalization of GE's values 70

Figure 3-12: Operationalization of leadership traits 72

Figure 3-13: Corporate HR review process 'Session C' 73

Figure 3-14: Corporate Leadership Programs at General Electric 80

Figure 3-15: GE's playbook 84

Figure 3-16: GE's CECOR Framework for Corporate Innovation 90

Figure 3-17: GE's operating system 93

Figure 4-1: Summary of Cross-business Synergy Types 101

Figure 5-1: Mechanisms for lateral coordination 120

Figure 6-1: Longitudinal research logic 141

Figure 6-2: Overview of research process 143

Figure 6-3: Illustration of coding scheme for data analysis 153

Figure 7-1: Strategies for achieving growth synergies 160

Figure 7-2: Integrated cross-business solutions for hospitals 168

Figure 7-3: Joint expansion into new customer segments at ABB 173

Figure 7-4: Corporate growth path: Timing of growth synergy strategies 176

Figure 7-5: Influence of growth synergy strategies on organizational complexity 177

Figure 7-6: Frequency of strategies for achieving growth synergies (n=116) 178

Figure 7-7: Logic of strategies for achieving growth synergies 179

Figure 8-1: Management levels at ElectroCorp 182

Figure 8-2: ElectroCorp's corporate structure (primary organization)..... 183

Figure 8-3: Timeline and major developments that lead to the OneEC initiative 188

Figure 8-4: Comparison of norm strategies for achieving growth synergies 193

Figure 8-5: Cross-business solutions for the airport sector 196

Figure 8-6: Combination of products into solutions along customer core processes . 197

Figure 8-7: Identification and establishment of profitable sectors 198

Figure 8-8: In-depth sector analysis..... 199

Figure 8-9: Megatrends and business consequences 200

Figure 8-10: Deriving of sector growth opportunities from trends 201

Figure 8-11: Summary of Strategic Concept 201

Figure 8-12: Overview of organizational alignments 202

Figure 8-13: Core elements of the sector organization..... 204

Figure 8-14: Roles and relationships of the key structures in the sector organization 211

Figure 8-15: Integration of sector organization into ElectroCorp's primary structure 212

Figure 8-16: Role and function of BCCs 213

Figure 8-17: Integration of BCCs into ElectroCorp's primary structure..... 214

Figure 8-18: Organization and Role of the OneEC department 215

Figure 8-19: Control relationships between businesses, regions, and sectors 218

Figure 8-20: Categories of non-monetary rewards 220

Figure 8-21: Key Account Management Process 223

Figure 8-22: Normative Frame for OneEC 228

Figure 8-23: Summary of Case Study 230

Figure 9-1: Chapter structure 231

Figure 9-2: Strategic frame for the continuous realization of growth synergies 234

Figure 9-3: Narrowing of scope of continuous growth synergy realization 237

Figure 9-4: Narrow scope on key customer-sector clusters 241

Figure 9-5: Strategic planning levels and horizontal strategies at ElectroCorp 244

Figure 9-6: Cross-business strategy at ElectroCorp (Sector Strategy) 245

Figure 9-7: Cross-business strategies and corporate business model 247

Figure 9-8: Corporate level competition 249

Figure 9-9: Complementarity of strategic concept elements 250

Figure 9-10: Impact of selective focus on continuous growth synergy realization 252

Figure 9-11: Overview of secondary work-structures at ElectroCorp 266

Figure 9-12: System effect of complementary organization design elements 279

Figure 9-13: Impact of design of decentralized collaboration on continuous growth synergy realization 281

Figure 9-14: Integration of constructs into the core category corporate management 284

Figure 9-15: Corporate context that guides and balances self-interest 285

Figure 9-16: Growth synergy realization as guided evolution 288

Figure 9-17: Roles of the corporate center in guided and balanced self-interest 289

Figure 10-1: Hybrid stable-flexible designs for continuous growth synergy realization 303

Figure 10-2: Corporate management as corporate entrepreneur 305

Figure 10-3: Types, characteristics, and roles of secondary work-structures 307

Figure 10-4: More fine-grained conceptualization of strategy in the MBF..... 311

Figure 10-5: Suggestion of this study to strategy-structure literature 314

Figure 10-6: Coevolutionary adaptation from products to solutions at ElectroCorp . 318

Figure 10-7: Organization form for coevolutionary adaptation 319

Figure 10-8: Structural real-options to address changes in the corporate domain 320

Figure 10-9: Positioning of ElectroCorp's sector solutions in the innovation space . 323

Figure 10-10: Suggestion of this study to innovation literature 324

Figure 10-11: Organization design elements for addressing cross-business issues ... 328

List of Abbreviations

AM	Account Manager
AT	Account Teams
BCC	Business Competence Centers
BU	Business, Business Unit[1]
CC	Competence Center
CAM	Corporate Account Manager
CEO	Chief Executive Officer
cf.	confer (compare)
CFO	Chief Financial Officer
CRM	Customer Relationship Management
DI	Degree of implementation
EBIT	Earnings Before Interest and Tax
EC	ElectroCorp (disguised case company)
EPS	Earnings per share
et al.	et allii (and others)
etc.	et cetera (and so on)
GDP	Gross Domestic Product
HR	Human Resources
IAM	International Account Manager
IB	Imagination Breakthrough (Corporate initiative at GE)
i.e.	id est (that is to say)
IT	Information Technology
MBF	Multi-business firm
MV	Market value

[1] The terms business and business unit are used synonymously throughout this dissertation

MV/S	Market value to sales ratio
NACE	Nomenclature générale des activités économiques dans les Communautés Européennes
OneEC	One ElectroCorp Initiative (growth synergy initiative at case company)
P/E	Price to earnings ratio
PLM	Product Lifecycle Management
RC	Regional Company
ROTC	Return on total capital invested
S	Sales
SB	Sales Board
SDB	Sector Development Board
SST	Sector Support Team
vs.	versus (against)

Abstract

Cross-business synergies are the prime rationale for the existence of the multi-business firm. Therefore, they are at the core of strategic management and organization design. Nevertheless, ever since Igor Ansoff introduced cross-business synergies into the field in the 1960s, research in strategy and organization has largely neglected their direct investigation. The questions of what cross-business synergies actually are and how they are realized remain largely unexplored.

This dissertation addresses this gap in two steps. As the concept of synergy in the multi-business firm remains underspecified, this study first develops a theory-based typology of cross-business synergies. In particular, this study conceptualizes two new types of cross-business synergies, which contrast with the dominant efficiency-focused view of synergy in the multi-business firm (economies of scope): *Growth synergies* (profitable growth advantages from recombining complementary operative resources across businesses) and *corporate management synergies* (performance advantages from leveraging corporate management capabilities across businesses). The concept of corporate management synergies is illustrated by a comprehensive case study of General Electric.

In a second step, this study focuses on growth synergies and inducts a mid-range theory for their continuous realization from a longitudinal in-depth single case study. We suggest that the continuous realization of growth synergies is associated with a *strategic concept* that establishes a selective focus on specific growth synergy opportunities, an *organization design* that fosters decentralized collaboration between businesses and motivates productive business unit self-interest, and a *corporate management approach* that guides and balances this self-interest in an evolutionary fashion.

The primary contribution of this study is new insight into the nature of the corporate effect (i.e. value creation at the corporate level). This study further attempts to make a broader contribution to theories of strategy and organization. First, this study suggests a novel organization design that stimulates business unit self-interest and channels this self-interest on productive cross-business collaborations. Thereby, this study proposes a more differentiated view on the corporate strategy-structure choice of related diversifiers than can be found in the existing literature. Second, by providing new insights into the effective (re)combination of complementary resources across businesses, which is the conceptual mechanism underlying the realization of growth synergies, this research advances emerging research on a recombinative rationale of the M-form as well as research on dynamic capabilities, coevolutionary change and cross-business innovation.

Keywords: Cross-business synergies, synergies, corporate growth, corporate effect, complementarity, corporate strategy, corporate management, dynamic capabilities, collaborative M-form, organization design, corporate structure, coevolutionary theory

1 Introduction

Multi-business firms in many industries such as industrial goods, finance, telecommunications as well as chemicals and retail currently pursue the realization of synergies between their businesses (cross-business synergies) with high priority to increase corporate performance. In a recent survey of 116 German, Swiss, and Austrian multi-business firms, over 70% were continuously realizing synergies between their businesses (Müller-Stewens & Knoll 2006). Firms that have only just started dedicated corporate initiatives to realize their cross-business synergy potential include Vodafone, GE, ABB, Philips, Siemens, Allianz, Zurich Financials, UBS, Credit Suisse, Citigroup, Deutsche Telecom, British Telecom, Swisscom, Nestlé, Unilever, and Xerox. In addition to raising their efficiency and reducing their costs, companies increasingly focus on achieving profitable corporate growth by collaborating across their internal businesses (Müller-Stewens & Knoll 2006). For many of these firms cross-business growth is the major lever of growth in their saturated markets. For instance, as the head of corporate strategy of ABB commented: "*By 2007, cross-business collaborations will be our primary engine for organic growth*" (E 24).

Despite this fact, strategic management research has largely neglected the topic of cross-business synergies. Most research on cross-business synergies has been conducted indirectly in the context of studies on the performance implications of diversification and is highly abstract. Little is known about the types of cross-business synergies that managers of multi-business firms can realize to increase corporate performance. In particular, research lacks insights into cross-business synergies that lead to profitable corporate growth and into their realization.

The purpose of this study is to close this gap and to establish a dedicated research perspective on cross-business synergies. In particular, we intend to improve the understanding of the following two issues: Which types of cross-business synergies can multi-business firms realize? How can multi-business firms achieve profitable corporate growth through permanently collaborating across their internal businesses (growth synergies)? Over and above this, we attempt to extend thinking beyond the efficiency-oriented view of corporate strategy to a growth-oriented view of corporate strategy in which corporate value is generated by pursuing profitable growth opportunities across businesses.

1.1 Research objectives and guiding questions

For decades, scholars in strategic management have recognized and emphasized the importance of synergies. Synergies are the prime rationale for mergers and acquisitions (e.g., Larsson & Finkelstein 1998), for alliances (e.g., Das & Teng 2000; Harrison et al. 2001), and for multi-business firms (e.g., Ansoff 1965; Porter 1985; Martin

& Eisenhardt 2001; Martin 2002).

Cross-business synergies are "*the value that is created and captured, over time, by the sum of the businesses relative to what it would be separately*" (Martin & Eisenhardt 2001: 3). They express the value added by the corporate level of the multi-business firm. More specifically, they capture two corporate performance effects. The first effect results from the vertical relationship between the corporate center and the businesses. The second effect is due to the horizontal relationships between the businesses themselves. Researchers have doubted whether these relationships really have an impact on firm performance. While early studies have attributed differences in firm performance primarily to industry and/or business-level effects (e.g., Werner & Montgomery 1988; Rumelt 1991), recent studies with improved sampling and more elaborate statistical methods have suggested corporate effects of up to 18% (e.g., Roquebert et al. 1996; Bowman & Helfat 2001). Furthermore, a recent study has shown that 43% of diversified firms systematically outperform the average of the focused group of firms (Anand & Byzalov 2007). This suggests that cross-business synergies do indeed exist.

This study pursues two different research questions related to cross-business synergies, which we discuss in the following:

(1) Categorizing cross-business synergies

Although recent studies suggest the existence of cross-business synergies and managers of multi-business firms are "desperately seeking synergy" (Goold & Campbell 1998), researchers have not yet established a dedicated research perspective for cross-business synergies. Research in economics, financial management and strategic management explores the sources of cross-business synergies from different angles. Ever since the seminal works of Ansoff (1965) and Porter (1985) more than three decades ago, scholars have refrained from providing typologies of cross-business synergies grounded in theory. Most typologies are arbitrary and do not provide proper definitions and classification criteria (e.g., Ansoff 1965; Goold & Campbell 2000). This study addresses this gap in the literature by deriving a typology of cross-business synergies from the existing literature and some exploratory empirical work. It seeks to answer our first research question:

RQ 1: Which types of cross-business synergies can multi-business firms realize?

Hence, an objective of this study is to provide a more direct and unifying analytical lens on cross-business synergies drawing from theoretical and empirical insights from economic, managerial, and financial research that has been conducted over the last decades. In particular, we seek to build a typology of cross-business synergies around

generic types of resources (operative, financial, market power, and general management resources).

(2) Investigating growth synergies

While our first research question theoretically grounds several types of cross-business synergies, a further focus of this dissertation is an empirical contribution to a specific type of cross-business synergy: operative synergies that lead to profitable corporate growth (growth synergies). Current research has neglected growth synergies even though they seem to be particularly relevant in managerial practice.

We define operative synergies as the performance advantages of multi-business firms from leveraging operative resources across their related businesses. Operative synergies focus on the horizontal relationships among business units to capture corporate performance. They are currently a high priority on many corporate agendas (e.g., Müller-Stewens & Knoll 2006). In strategic management, operative synergies are explored in the context of corporate diversification. A wealth of empirical studies has used operative synergies to argue and test the impact of relatedness between businesses of diversified firms on performance (e.g., Christensen & Montgomery 1982, Rumelt 1982, Montgomery & Singh 1984, Palepu 1985, Reed & Luffman 1986, Amit & Livnat 1988, Grant & Jammine 1988, Ramanujam & Varadarajan 1989, Simmonds 1990, Harrison et al. 1991, Lang & Stulz 1994, Berger & Ofek 1995).

Due to the conceptualization of relatedness through SIC-based measures, most studies on operative synergies have only captured benefits of cost-subadditivities (economies of scope) from sharing similar resources across businesses (cf. Panzar & Willig 1981; Bailey & Friedlander 1982; Davis & Thomas 1993; Martin 2002; Tanriverdi & Venkatraman 2005). Recent studies, however, have indicated that horizontal relationships among businesses cannot only lead to cost-subadditivities but can also lead to value-enhancing revenue super-additivities, i.e. profitable corporate growth (e.g., Davis & Thomas 1993; Tanriverdi & Venkatraman 2005; Müller-Stewens & Knoll 2006). Such revenue super-additivities are associated with the combination and transfer of complementary resources to capture growth opportunities across businesses rather than with sharing similar resources to increase efficiency (cf. Eisenhardt & Martin 2000; Tanriverdi & Venkatraman 2005). We term these valuable revenue super-additivities from combining complementary operative resources across businesses *growth synergies*.

In many of today's saturated low growth markets, the pursuit of growth synergies is becoming increasingly important for multi-business firms. A recent study of the 116 largest multi-business firms in Switzerland, Germany and Austria shows that over 70% of these firms actively pursue growth synergies and attribute a high strategic importance to them (Müller-Stewens & Knoll 2006). Multi-business firms such as GE, ABB,

Siemens, Allianz, Philips, UBS, Credit Suisse, Citigroup, Nestle, Unilever and Xerox have initiated dedicated corporate initiatives for the continuous realization of growth synergies. A corporate executive of a multi-business firm recently said at a management symposium said:

> *"The realization of cross-business growth is a very interesting issue. It is currently vividly discussed at our firm. However, current management literature seems to have forgotten the subject of synergy altogether. I would greatly appreciate it, if researchers revived this topic again, particularly with a focus on corporate growth" (EO 4)*

However, despite the importance that practitioners attribute to growth synergies, their continuous realization has received little, if any, attention in the literature. This is disturbing, as the realization of synergies frequently is an indefinable goal for corporate managers (cf. Bettis 1981; Amit & Livnat 1988; Ramanujam & Varadarajan 1989; Eisenhardt & Galunic 2000; Palich et al. 2000; Martin 2002) that leads them to destroy rather than add value (Goold & Campbell 1998).

Three research streams in diversification literature are generally concerned with operative synergies: First, research on diversification strategies that explores the strategic rationale of related diversification. Second, research on corporate organization design that investigates the organizational context factors of related diversification. Third, corporate process research that investigates the corporate-level processes of resource combination in related diversifiers. While *research on diversification strategies* provides evidence for the existence of growth synergies (Davis & Thomas 1993; Tanriverdi & Venkatraman 2005), it reveals nothing about their realization. Research that investigates the *corporate organization design of related diversifiers* either focuses exclusively on synergies from cost subadditivities (e.g., Datta 1991; Haspeslagh & Jamison 1991; Chatterjee et al. 1992; Hill et al. 1992: St. John & Harrison 1999) or only provides anecdotal evidence (e.g., Goold et al. 1994; Goold & Campbell 1998, 2000; Galbraith 2005). Furthermore, organization design studies suffer from an indirect observation of synergy realization. They are indirect in that they observe the performance of related diversification and then assume that cross-business synergies must exist and that the observed organizational arrangements contribute to their successful realization. Such indirect research provides little insight into the organizational arrangements by which operational synergies are (or are not) realized. Finally, studies investigating the *corporate-level processes of resource combination in related diversifiers* (e.g., Galunic & Eisenhardt 1996; Eisenhardt & Brown 1999; Eisenhardt & Galunic 2000; Hansen 1999; Gupta & Govindarajan 2000; Hansen 2002) are mostly too abstract and/or theoretically and empirically immature to provide meaningful insights into synergy realization. An exception is Martin's (2002) qualitative study on cross-business synergy initiatives. However, his study does not distinguish between different types of cross-business synergies and exclusively focuses on temporary

cross-business collaborations in companies that operate in highly dynamic markets. Consequently, his study does not provide any information on more stable collaborations between business units and on the realization of growth synergies.

This dissertation addresses this gap in the literature on growth synergies. It aims to extend the literature on related diversification by focusing on how multi-business firms can capture corporate value through continuously realizing growth synergies. Hence, the second research question that this study explores is:

RQ 2: How do multi-business firms continuously realize growth synergies?

By answering this question, we aim to provide further insights into the nature of the corporate effect by developing a mid-range theory of continuous growth synergy realization in multi-business firms (cf. Merton 1968).[2] In particular, we explore how multi-business firms continuously create profitable corporate growth across their businesses (growth synergy) in the context of permanent cross-business collaboration. Therefore, this study attempts to extend scholarly thinking beyond the efficiency-oriented view of corporate strategy, in which corporate value is achieved by pursuing cost-subadditivities across businesses through resource sharing, to a growth-oriented view of corporate strategy in which corporate value is achieved by pursuing valuable revenue super-additivities from combining resources across businesses.

Given the limited theory on the continuous realization of growth synergies in multi-business firms, the underlying logic of this study is grounded theory building (Strauss & Corbin 1990, 1996). We chose grounded theory building because of our interest in looking at a rarely explored complex phenomenon. The setting for this study is the global industrial and electrical engineering industry, where several multi-business firms are engaged in realigning their organization for the continuous realization of growth synergies (cf. Müller-Stewens & Knoll 2006). In a single in-depth case study at the multi-business electronics and investment goods firm ElectroCorp, we investigated the strategy and organization design (unit of analysis) for permanent cross-business collaboration (object of analysis) that led to the continuous realization of growth synergies.

[2] Mid-range theories are theories that are composed of concepts and propositions which are close to managerial practice (cf. Merton 1968). Mid-range theories are less abstract, more focused, and more practically oriented than grand theories like transaction cost theory (Merton 1968).

1.2 Key results and contribution

In the following, we give an overview of the key results that our study yielded (1.2.1) and the major contribution it makes to theory and practice (1.2.2).

1.2.1 Key Results

The key results of this dissertation are the development of a typology for cross-business synergies and the generation of theoretical insights into the continuous realization of growth synergies.

(1) Typology of cross-business synergies

The first result of this study is the development of a resource-based typology of cross-business synergies. We designed a typology that delineates and defines classes of cross-business synergies, discusses their sources, and relates them to corporate advantage. We defined corporate advantage as the ability of a multi-business firm to outperform its single-business competitors. We delineated the following four types of cross-business synergies from the literature: operative synergies, market power synergies, financial synergies and corporate management synergies.

(1) Operative synergies are performance advantages of multi-business firms from leveraging operative resources across their related businesses. Based on their output, they can be classified into efficiency and growth synergies. Efficiency synergies are cost subadditivities from sharing similar operative resources across businesses. Growth synergies are valuable revenue superadditivities from combining complementary resources. Operative synergies can contribute to corporate advantage by better utilizing valuable resources that are rare and difficult to imitate or by exploiting transaction and agency advantages of the firm.

(2) Market power synergies are performance advantages of multi-business firms from leveraging market power across their businesses. Multi-business firms achieve market power through strategies of predatory pricing, bundling, reciprocal buying and selling, and mutual forbearance. As single business firms cannot realize these strategies, market power synergies are a likely source of corporate advantage.

(3) Financial synergies are performance advantages of multi-business firms from leveraging financial resources across their businesses. Multi-business firms can achieve financial synergies by reducing corporate risk, establishing an internal capital market, and exploiting tax advantages and financial economies of scale. Financial synergies might contribute to corporate advantage through increasing the willingness of stakeholders to make firm-specific investments, reducing debt-financing costs, increasing financial flexibility, and exploiting transaction cost advantages.

(4) The last type of cross-business synergy, corporate management synergies, is a potentially new type of cross-business synergy that we are the first to conceptualize. We define corporate management synergies as the performance advantages of multi-business firms from leveraging corporate management capabilities across their businesses. Corporate management synergies focus on the vertical relationship between the corporate center and the businesses. They capture the performance increases of businesses that directly result from the activities of corporate managers. Corporate management synergies stem from management capabilities that shape the corporate context of the firm and provide businesses with managerial advice. As these capabilities seem to be rare, causally ambiguous and socially complex, corporate management synergies are likely to be a source of corporate advantage.

(2) Continuous realization of growth synergies

The second result of this paper is a *mid-range theory of continuous growth synergy realization* that emerged from our empirical data. We inferred two major constructs for the continuous realization of growth synergies from our data: a strategic concept of selective focus and an organization design of decentralized collaboration. These two constructs integrate into a super-ordinate corporate management model of guided and balanced self-interest.

(1) First, we found that the continuous realization of growth synergies is associated with a strategic concept that establishes a selective focus on specific growth synergy opportunities. We observed that a selective focus is achieved through three mutually reinforcing conceptual elements: A strategic frame that focuses synergy realization on a central strategic theme linked to corporate advantage, a narrow scope that focuses on cross-business domains with high growth potential, and the existence of horizontal cross-business strategies that guide the continuous exploitation of these domains.

(2) Second, we found that the continuous realization of growth synergies is associated with an organization design that fosters decentralized collaboration and motivates productive business unit self-interest. We observed that such a design of decentralized collaboration consists of four mutually reinforcing organization design elements: decentralization, strong financial controls that focus on business-specific targets, corporate-level incentives, and strong integration mechanisms with formal work-structures, operational rules, and socio-cultural mechanisms.

(3) Third, the selective focus and decentralized collaboration integrate into a corporate management model of guided and balanced self-interest. Corporate managers of multi-business firms contribute to the continuous realization of growth synergies by establishing a corporate context that motivates, guides, and balances the self-interest of businesses and creates an ecological system for the evolution of growth synergy initiatives. Specifically, we found that the corporate center has two value-adding roles in

continuous growth synergy realization. First, it has a micro management role as governor of the ecosystem, which includes temporarily incubating significant growth synergy opportunities for which businesses are not willing to take ownership, coaching the businesses in cross-business collaboration, and incrementally improving the corporate context that facilitates the ecosystem. Second, the corporate center has a macro management role as the creator of the ecosystem, which includes setting the corporate context, aligning the business portfolio, enforcing strong financial controls, and building the team of business unit general managers.

The third result of this study is the specification of *a novel type of governance and integration mechanism in multi-business firms*, the secondary work-structure, which is particularly important for continuous growth synergy realization. Secondary work-structures are permanent and linked cross-business decision-making boards and cross-business teams that consist of business-level managers with clearly defined responsibilities, reporting relationships, and accountabilities for continuously realizing growth synergies. They combine stability and overview with flexibility and market proximity.

1.2.2 Contribution to theory and managerial practice

Furthermore, this study attempts to contribute to theories of strategy and organization and to managerial practice:

(1) Contribution to theory

The primary contribution of this dissertation is new insight into the *nature of the corporate effect* (cf. Bowman & Helfat 2001) by clarifying and conceptualizing types of cross-business synergies and by empirically deriving strategic and organizational success factors for the continuous realization of growth synergies. Furthermore, this study contributes to the resource-based view of the firm by providing a typology of corporate resources which may play an important role for multi-business firms to achieve competitive advantage.

Moreover, this research attempts to make a broader contribution to *theories of strategy*, and in particular to corporate strategy, by focusing on how value is achieved from combining complementary resources to continuously seek new opportunities rather than establishing sustainable positional advantages, reducing transaction and governance costs or exploiting resource similarities (cf. Eisenhardt & Martin 2000; Martin 2002). This research clarifies the role of the corporate center in deriving value from resource combinations (cf. Hill 1994; Rumelt et al. 1994; Markides 2002). Moreover, this research provides an empirical example of dynamic capabilities (Teece at al. 1997; Eisenhardt & Martin 2000) and encourages a more holistic conceptualization of dynamic capabilities that includes elements of strategy, organization design, and corporate management rather than just processes as suggested by Eisenhardt and Martin

(2000). In addition, this research confirms the importance of complementarities in conceptualizing resource relatedness in addition to similarities of resources (Davis & Thomas 1993; Tanriverdi & Venkatraman 2005). Finally, this research offers a possible contribution to strategy process research by providing insights into the emergence of corporate strategy through interactions between business units. This contrasts with the predominant focus of strategy process literature on strategy formation within individual businesses or between businesses and the corporate center (e.g., Bower 1986; Burgelman 1983a/b; Floyd & Woolridge 2000).

This research also attempts to make a broader contribution to *organization theory* by conceptualizing a novel organization design for related diversifiers that is based on productive business unit self-interest and focuses on growth advantages (growth synergies) rather than on efficiency advantages (efficiency synergies). Therefore, this research suggests a more differentiated view of the corporate strategy-structure choice of related diversifiers than the existing literature (e.g., Lorsch & Allen 1973; Hill et al. 1992). In addition, this research attempts to contribute to organization theory by confirming and extending a rationale for the multi-divisional form (M-form) that is based on adaptation advantages for capturing collaborative opportunities and that is thus not purely based on efficiency advantages (this rational is termed recombinative M-form; see Martin & Eisenhardt 2005; Santos & Eisenhardt 2005). Furthermore, this research offers a possible contribution to the coevolutionary perspective of change in organization theory by describing how organizational change can result from the coevolution of the business units with changing market circumstances. In particular, this research complements the narrow process focus of existing coevolutionary studies (e.g., Martin 2002; Martin & Eisenhardt 2005) with an emphasis on strategic and organization design aspects and suggests a new organizational form for the coevolutionary adaptation of multi-business firms (cf. Lewin et al. 1999; Lewin & Volberda 1999) that follows a real options logic. Finally, this study attempts to contribute to innovation research by providing insights into the largely unexplored field of cross-business innovation and suggesting a more differentiated view of organizational forms that support the simultaneous pursuit of exploration and exploitation (cf. Tushman et al. 2006; O'Reilly and Tushman 2007).

(2) Contribution to managerial practice

This research also attempts to contribute to managerial practice. First, the typology of cross-business synergies that this study develops supports corporate managers in identifying new opportunities for corporate value generation. Second, by highlighting growth synergies as an important source of corporate value, our research suggests that corporate managers should consider frequently neglected complementary resources across their businesses for achieving profitable corporate growth. Third, the mid-range theory of continuous growth synergy realization that this study inducted from empiri-

cal data provides a normative basis that guides corporate managers in realizing these potential sources of corporate value. Fourth, by emphasizing and illustrating the value-adding role of the corporate center, our research encourages corporate executives to reflect on the frequently advocated minimalist role of the corporate center and suggests them to question the radical downsizing of corporate staff that consultants frequently recommend. Finally, by suggesting a novel organizational form for the coevolutionary adaptation of multi-business firms, this study supports corporate managers in designing a responsive organization in times of strategic uncertainty.

1.3 Outline of dissertation

This dissertation is divided into three parts and ten chapters. The **first part** introduces cross-business synergies, establishes a dedicated research lens, and aims to answer our first research question (Which types of cross-business synergies can multi-business firms realize?). In *chapter 2*, we will introduce the concept of synergy and define cross-business synergies. We will also discuss the general impact of cross-business synergies on corporate advantage and provide empirical evidence for their existence. *Chapter 3* seeks to answer our first research question and presents our typology of cross-business synergies. We will delineate four types of cross-business synergies and relate them to corporate advantage. Furthermore, we will present an illustrative case study of General Electric for corporate management synergies, a potentially new type of cross-business synergies that we propose. Chapter 4 summarizes the results of part one and discusses the contribution to theory and managerial practice.

In **part two**, we will focus on the realization of growth synergies to answer our second research question (How can multi-business firms continuously realize growth synergies?). In *chapter 5*, we will provide an in-depth review of the literature on operative synergies and will point out gaps that suggest our research question. *Chapter 6* describes our empirical approach including the methodology and research design. It explains why we have chosen grounded theory and a single case study design to explore the continuous realization of growth synergies and describes our research process. In *chapter 7*, we will present strategies for achieving growth synergies, which are the result of some exploratory work. The discussion of these strategies provides a more concrete understanding of the abstract concept of growth synergies, which is helpful for the in-depth exploration of their realization in the subsequent chapters. In *Chapter 8,* we will provide an in-depth case study of the continuous realization of growth synergies at our research site, ElectroCorp. The case study gives detailed descriptions of the strategy and organizational design for synergy realization at ElectroCorp and thus permits the reader to draw his own conclusions and compare them to our interpretation of the data in the next chapter. *Chapter 9* lies at the heart of this dissertation and displays the results of this study that emerged from the data, a mid-range theory of continuous growth synergy realization in multi-business firms. We will explain that a stra-

tegic concept of selective focus and an organization design of decentralized collaboration contribute to the successful and continuous realization of growth synergies. Furthermore, we will discuss how these two concepts integrate into a corporate management approach of guided and balanced self-interest for the continuous realization of growth synergies. *Chapter 10* provides a summary and discusses the theoretical and practical contributions of our results from part two. Furthermore, it discusses the boundary conditions and limitations of our empirical investigation and suggests directions for future research.

Part three ends our study by drawing final conclusions.

Figure 1-1 below presents a summary of this dissertation outline.

Figure 1-1: Outline of dissertation

1 Introduction
- Research objective and guiding questions
- Key results and contribution
- Outline of dissertation

Part I: INTRODUCING CROSS-BUSINESS SYNERGIES

2 Concept and characteristics of cross-business synergies
- Concept of synergy
- Definition and existence of cross-business synergies
- The impact of cross-business synergies on corporate advantage

3 Types of cross-business synergies
- Delineation and conceptualization of four types of cross-business synergies

4 Summary and discussion of part I
- Summary of key findings
- Contribution to theory and practice

Part II: REALIZING GROWTH SYNERGIES

5 Literature review
- Review of corporate strategy research, corporate design research, corporate process research
- Managerial insights, gaps, and research question

6 Empirical approach
- Methodology and research approach
- Research design and quality of research approach

7 Exploratory work: Strategies for growth synergies
- Conceptualization of four strategies for achieving growth synergies
- Timing of growth synergy strategies along a corporate growth path

8 Case Study: Realizing growth synergies at ElectroCorp
- In-depth single case study presenting the strategic concept and corporate organization design for the continuous realization of growth synergies at our research site ElectroCorp

9 Results: Successful realization of growth synergies
- Strategic concept, organization design, and corporate management approach for the successful and continuous realization of growth synergies

10 Summary and discussion of part II
- Summary of key findings
- Contribution to theory and practice
- Boundary conditions, limitations, and directions for further research

Part III: CONCLUSION
- Final conclusions of study

PART I: INTRODUCING AND CLASSIFYING CROSS-BUSINESS SYNERGIES

The first part of this dissertation contains three chapters that lay the groundwork for the empirical component of our study. It aims to establish a dedicated research perspective on cross business synergies and attempts to answer our first research question through classifying different types of cross-business synergies.

Chapter 2 introduces the concept of synergy, applies it to multi-business firms, and formally defines cross-business synergies. Furthermore, it relates cross-business synergies to corporate advantage, which we define as the ability of a multi-business firm to outperform its single-business competitors. Finally, the chapter reviews studies on the corporate effect, which strongly suggest that cross-business synergies are not just an appealing theoretical concept but that they exist in empirical reality.

Chapter 3 seeks to answer our first research question by presenting a resource-based typology of cross-business synergies that is grounded in existing theory. It delineates four distinctive types of cross-business synergies and discusses their sources and impacts on corporate advantage.

Chapter 4 summarizes the insights of the preceding two chapters and discusses their contributions to and implications for theory and managerial practice.

2 Concept and Characteristics of Cross-business Synergies

This chapter defines and explains the basic terms of this study. It introduces the concept of cross-business synergies and discusses their general characteristics. We start with explaining the general concept of synergy (chapter 2.1) and then apply it in a multi-business context to define cross-business synergies (chapter 2.2). We proceed with a brief discussion of the theoretical impact of cross-business synergies on corporate advantage (chapter 2.3) and provide empirical evidence for their existence (chapter 2.4).

2.1 The concept of synergy

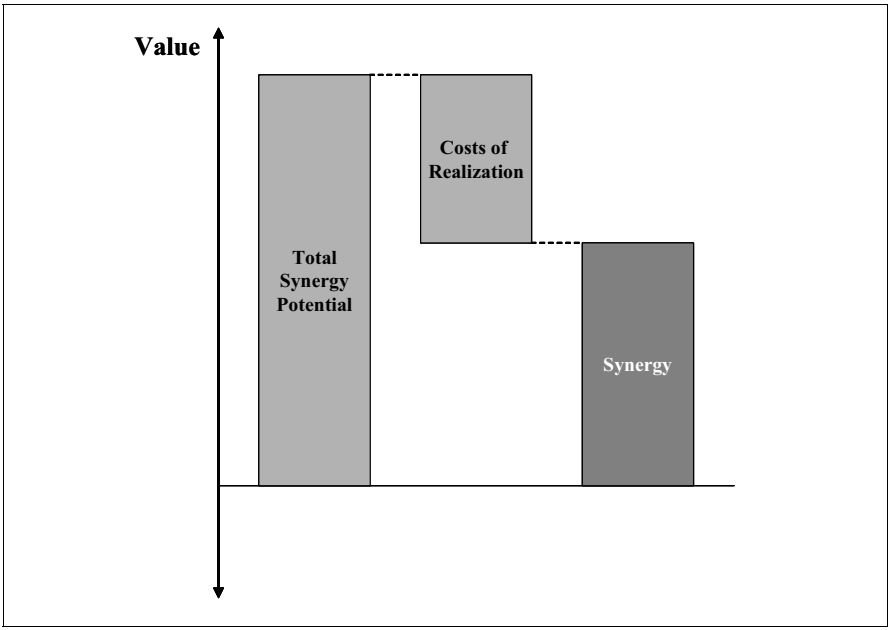
Synergy means 'combined action' and has its etymological roots in the Greek word 'synergos', which means working together (Merriam-Webster Online Dictionary 2006). Ansoff (1965) introduced the concept of synergy into strategic management. He employed the term synergy to describe the effect that the combined return of a whole is greater than the sum of the returns from the individual parts (2+2 = 5).

Definition of Synergy

Synergy is the effect that the combined return of the "whole" is greater than the sum of the returns from the individual parts.

Combining parts into a coherent whole is costly. In other words, the realization of synergies needs to be managed and ties up resources (cf. Porter 1985; Prahalad & Doz 1987, 1998; Sirower 1997a/b). Therefore, synergy potential does not fully translate into actual synergies. Throughout this thesis, we refer to synergy as the *net effect* between total synergy potential and realization costs (see figure 2-1 on the next page).

Figure 2-1: Definition of synergy as net effect



Source: author

2.2 Definition of cross-business synergies

Since Igor Ansoff introduced the concept of synergy in 1965, it has been applied in several research streams in strategic management. Synergy has been discussed in the context of mergers and acquisitions (e.g., Larsson & Finkelstein 1998), alliances (e.g., Das & Teng 2000; Harrison at al. 2001), and multi-business firms (e.g., Ansoff 1965; Porter 1985; Martin & Eisenhardt 2001; Martin 2002). Our thesis focuses on synergy in the context of the multi-business firm (MBF).

In this dissertation, we explore cross-business synergies, the synergies that are created across the individual businesses of a MBF.[3] Businesses are all entities of the MBF, which can operate autonomously (i.e. without the help of other entities) and which perform basic value chain activities. In the context of a multi-business firm, a business usually is an organizational entity which is to some degree self-contained, but not free-standing. A business usually has its own profit and loss statement or budget/expenditure schedule and focuses on specific geographies, products or customers.

[3] We use the term business and business unit interchangeably throughout this dissertation.

Martin and Eisenhardt (2001) provide the most complete definition of cross-business synergies in the literature. They defines cross-business synergies as " *(...) the value that is created and captured, over time, by the sum of the businesses together relative to what it would be separately*" (Martin & Eisenhardt 2001: 3). Martin and Eisenhardt's definition captures both – synergies from cost reductions and synergies from revenue enhancements because it focuses on value. Furthermore, it accounts for the temporal nature of synergies as it includes the value captured by the group of businesses over time. We therefore define cross-business synergies in this dissertation as:

Definition of cross-business synergies

Cross-business synergies are the value that is created and captured, over time, by the sum of the businesses together relative to what it would be separately.

Cross-business synergies express the value added by the corporate level of the firm. More specifically, they capture two corporate performance effects. The first effect results from the vertical relationship between the corporate center and the businesses. The second effect stems from the horizontal relationships between the businesses.

Martin and Eisenhardt (2001) do not specify the meaning of 'value'. Throughout this dissertation, we think of value as the 'net present value' of either the combined firm or its separate businesses. Our definition of cross-business synergies can therefore be formalized as:

Formalization of cross-business synergies

Cross-business synergies exist if:

$$NPV \sum BU\ 1 \text{ to } n > NPV\ (BU1) + NPV\ (BU2) + \ldots + NPV\ (BUn)$$

Where NPV = net present value, BU = business, NPV (BU) = standalone value of business

According to our definition of synergy, cross-business synergies represent the difference between total cross-business synergy potential and realization costs. Realization costs include *direct costs* of coordination and controlling and *indirect costs* of compromise and inflexibility (cf. Campbell & Goold 2000):

- **Coordination Costs**: The realization of cross-business synergies may require collaborative linkages between businesses, which cause coordination costs (e.g. Porter 1985). Costs may arise due to management time required for cross-business coordination or from the installation and maintenance of IT systems. The required man-

agement time for coordination can be significant. For instance, Prahalad & Doz (1998) discovered that business-level managers that engage in synergy realization spend up to 70 per cent of their disposable time meeting and negotiating with managers of other businesses to co-ordinate activities and decisions. In addition to these business-level costs, cross-business coordination may also generate costs at the corporate level, as corporate managers may need to settle disputes and resolve conflicts[4] between businesses (Hill et al, 1992; Michel & Hambrick, 1992).[5]

- **Controlling costs**: The realization of synergies frequently leads to interdependencies between businesses (Porter 1985; Prahald & Doz, 1986). These interdependencies can decrease transparency and lead to ambiguities, which makes it more difficult for corporate managers to assess the contribution of individual businesses to corporate performance (e.g., Vancil 1980; Gupta & Govindarajan 1986; Govindarajan & Fisher 1990). Consequently, corporate controllers have to spend more time evaluating the businesses, which leads to higher controlling costs.

- **Costs of compromise:** Synergy realization may generate costs of compromise when cross-business collaboration leads to less favorable outcomes in one or more of the businesses involved (Porter 1985). For instance, a joint brand strategy across businesses could lead to a loss of customers for products of a business for which this strategy is not well suited. The likelihood of costs of compromise increases with differences in key success factors, core activities or customer preferences between businesses (cf. Goold & Campbell, 2002).

- **Costs of inflexibility:** The interdependencies between businesses that arise from the realization of cross-business synergies may reduce the flexibility of individual businesses and the firm (Porter 1985; Prahalad & Doz 1998; Eisenhardt & Galunic 2000). This loss of flexibility may lead to costs that arise from (1) slower adaptation of the firm to changes in the competitive environment (Eisenhardt & Galunic 2000), (2) reduced innovation because businesses lose their freedom to act (cf. Prahalad & Doz 1987, 1998; Peters & Waterman 1988; Gulati 1995;

[4] Conflicts may arise from asymmetrical distribution of benefits, from different business unit cultures and/or from frustration over long decision processes.

[5] This more active role of corporate management may have two negative consequences that cause additional costs. First, *active corporate management may stimulate unproductive corporate-level behavior*: Corporate managers may interfere in business unit operations even though they do not have the necessary business knowledge or the required operational skills, which often leads to wrong business level decisions and frustrated business unit managers (Vancil 1980; Michel & Hambrick 1992; Goold & Luchs 1993; Campbell & Goold 1998). Second, *active corporate management* may *have a negative effect on the job satisfaction of business managers*: Studies on leadership styles have indicated that subordinates seem to be less satisfied when their superiors make decisions they have to follow (e.g. Beer, 1964; Fleishman & Harris 1962; Tannenbaum, 1962). In line with this argument, Gupta & Govindarajan (1986) show that resource sharing has a negative effect on the job satisfaction of business unit general managers.

Birkinshaw & Lingblat 2001)[6], and (3) the deferral of portfolio divestments (Porter 1985).

2.3 The impact of cross-business synergies on corporate advantage

According to our definition, cross-business synergies exist if the net present value of the combined firm is greater than the sum of the net present values of the individual firms (stand-alone value). Therefore, from the perspective of a corporate manager, every cross-business or portfolio activity that increases the net present value of the combined firm leads to cross-business synergies.

However, while cross-business synergies lead to an increase in net present value of the combined firm, this does not necessarily mean that the focal firm will outperform its single-business competitors. Therefore, the realization of cross-business synergies does not automatically contribute to corporate advantage, which we define as the ability of a MBF to outperform its single-business competitors.[7]

This brings us to the question of under which conditions the realization of cross-business synergies lead to corporate advantage. While empirical research has not directly addressed this question, the resource-based view and transaction cost theory provide us with the necessary tools to answer this questions. According to these theories, cross-business synergies contribute to corporate advantage, if they (1) are a source of competitive advantage or (2) if the firm has transaction and agency advantages over the market for realizing them (cf. Markides & Williamson 1994, 1996; Collis & Montgomery 2005; Grant 2005a; Barney 2007).[8]

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[6] Furthermore, the realization of cross-business synergies may reduce innovation for two reasons. First, cooperative organizational structures required for coordination (cf. Hitt et al, 1992) *limit positive effects on innovation from internal competition* (cf. Birkinshaw & Linglblat, 2001; Peters & Waterman 1988). Second, collaborative links between business units *reduce the willingness to look for new potential partners*, which may be a source of innovation. As Gulati, (1995: 626) observed, once two actors "have developed specific routines for managing an interface with each other", they tend to rely exclusively on such routines and ignore opportunities for initiating relationships with new partners.

[7] Please note that this is a **narrow conceptualization of corporate advantage**, which focuses on capturing the relative advantage of multi-business firms over single business firms and is primarily concerned with achieving a conglomerate surplus (cf. Berger Ofek 1995). It does not capture, for instance, the performance advantages of a multi-business firm over its multi-business competitors (cf. concept of parenting advantage, Goold et al. 1994) which do exist (Anand & Byzalov 2007). The reason for such a narrow conceptualization was our objective to reduce the complexity in the discussion of a highly complex topic (cross-business synergies). Due to the absence of any definitions in literature that conceptualize corporate advantage, we were not able to use any established concepts but had to define our own.

[8] We require these two separate lenses, as research has not yet integrated the arguments of the resource-based view and transaction cost theory. As Raynor (2000a: 25) observes: "*Yet, resource based researchers have not provided a means to synthesize the empirical observations and theoretical arguments [of transaction cost theory] adduced by Williamson (1975, 1985) and Vancil (1980).*"

(1) Cross-business synergies are source of competitive advantage

Cross-business synergies contribute to corporate advantage if they are a source of competitive advantage.[9] The straightforward argument is that any cross-business activity that leads to competitive advantage will also lead to performance advantages of the combined firm over single-business competitors (cf. Farjoun 1994; Markides & Williamson 1994; Robins and Wiersema 1995).

The resource-based view describes the conditions under which cross-business synergies have the potential to establish a sustainable competitive advantage (Barney 1991; Conner 1991; Peteraf 1993; Wernerfelt 1984):

- First, the synergistic resources need to be *valuable*. This is the case if they are relevant to one or more key success factors of the firm's businesses (cf. Grant 2005a). In other words, the resources must enable the firm to exploit environmental opportunities or to reduce environmental threats (Barney 2007). Ultimately, they have to contribute to the fulfillment of customer needs at a price that customers are willing to pay and in a way that is 'better' than that of the firm's competitors (Collis & Montgomery 2005).[10]
- Second, the synergistic resources need to be *rare,* which means they must be in short supply. If they are widely available, they may be necessary to compete but not sufficient for competitive advantage (Grant 2005a). While resources that are valuable but not rare can only be a source of competitive parity, resources that are valuable and rare can be source of at least a contemporary competitive advantage (Barney 2007).
- Finally, to be a source of sustainable competitive advantage, synergistic resources need to be valuable, rare, and *difficult to imitate*. A resource is difficult to imitate if competitors that do not posses it face cost and timing disadvantages in obtaining it (Grant 2005a; Barney 2007). These may be due to unique historical conditions such as time compression diseconomies, causal ambiguity, social complexity, or patents (Barney 2007).[11]

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[9] Competitive advantage means that a firm enjoys a performance advantage over its competitors, i.e. that it creates more economic value than its rivals (Barney 2007).

[10] Specifically, synergistic capabilities/resources allow the firm to offer similar products or services at lower costs than competitors or to supply a product or service that is differentiated in such a way that the customer is willing to pay a price premium that exceeds the additional cost of differentiation (Barney 2005 in reference to Porter 1985).

[11] Time ***compression diseconomies*** refer to timing advantages of firms in building resources (cf. Dierickx & Cool 1989). They may stem from first mover advantages or from the positive subsequent effects from early events in the evolution of a resource (path dependency). ***Causal ambiguity*** refers to difficulties of linking certain resources to competitive advantage. Causal ambiguity is possible for a variety of reasons, however, it is especially likely if many different and interconnected resources are required to achieve a competitive advan-

(2) Firm has transaction/agency advantages in realizing cross-business synergies

If a firm has transaction and/or agency advantages over the market in realizing cross-business synergies, these synergies contribute to corporate advantage. In other words, in the presence of transaction costs, MBFs may be able to derive advantages from 'non-specialized resources', which are not desirable in light of the resource-based view because they are either not rare or not difficult to imitate (cf. Barney 2007).

From research in transaction cost economics, we derived three kinds of transaction/agency advantages, which MBFs may have in the realization of cross-business synergies.

- *Mitigation Advantages*: MBFs can have mitigation advantages if high market transaction costs for the synergistic activity lead to market failure. This is usually the case when the transaction involves specialized investments that lead to hold-up risks (Williamson 1975; Klein 1988). The firm can then mitigate this hold-up risk.
- *Mediation Advantages*: MBFs can have mediation advantages if external markets are inefficient and do not work well (cf. Williamson 1975; Khanna & Palepu 1997, 1999; Cacciatori and Jacobides 2005). The firm may then be able to perform the synergistic activity more efficiently than the market and gain corporate advantage by acting as a synergistic broker between its businesses and the rest of the economy.

  To illustrate: To gain advantage in marketing, the global consumer products firm Unilever had set up one of the first advertising agencies at the beginning of the last century. The agency was a central 'shared resource' and provided advertising services to Unilever's businesses. However, as the advertising industry matured, Unilever could buy equally good services form external agencies. The mediation advantages from providing advertising services internally vanished and Unilever sold its agency (cf. Goold et al. 1994). Put differently, while there were still cross-business synergies from the shared advertising agency (lower costs, etc.), increasing efficiency of the market for advertising services prevented Unilever from extracting a corporate advantage from realizing these synergies.

  Private equity firms also frequently act as synergistic brokers between their businesses (i.e. their investments with equity share) and the rest of the economy. For instance, the California-based private equity firm Sequoia invests in the Austrian internet-telephony company "Jajah". Jajah offers an internet-telephony product which is similar to Skype but works much better in a WLAN environment. Sequoia adds value to Jajah by providing several mediating services, which makes it

tage (cf. Dierickx & Cool 1989). ***Social complexity*** refers to the fact that some resources are socially complex phenomena which firms cannot systematically manage and influence (cf. Barney 2007).

worthwhile for the owners to give Sequoia equity stakes in exchange. As the founders of Jajah, Roman Scharf and Daniele Matthes, explain:

> *"Sequoia provided us with three million US dollars (...) and a 90-day plan for the global rollout of our product. (...) We relocated our development department to Ra'anana in Israel because Haim [Sequoia partner] knew several excellent developers there. We got conference rooms and an office in Sequoia's headquarters in Menlo Park. (...)" (Hohensee 2006)*

Sequoia provides four mediation advantages: First, it provides Jajah with capital, which it cannot easily raise on the capital market. Second, it gives them expert advice on their global service launch in the form of a 90-day rollout plan. This advice is based on Sequoia's experience from supporting successful start-ups such as Google and Yahoo, and not readily available on the market. Third, Sequoia provides Jajah with connections to skilled developers in Israel, which Jajah probably would not have established on its own. Lastly, it provides Jajah with business contacts in the US. In conclusion, Sequoia adds value by mediating capital, knowledge and labor transactions more efficiently for Jajah than external markets.

- *Coordination Advantages*: MBFs can have coordination advantages if the realization of cross-business synergies requires frequent and intense coordination through mutual adjustment[12] of the involved businesses (cf. Gupta & Govindarajan 1991; Milgrom & Roberts 1992; Collis & Montgomery 2005). Coordination advantages of MBFs include the ability of the firm to change requirements without enduring re-contracting costs and the ability to establish and enforce stronger central coordination mechanisms that enable coherent decisions and reduce bargaining over profits (cf. Williamson 1975; Jones & Hill 1988; Gupta & Govindarajan 1991; Hitt et al. 1992). An example where MBFs are likely to have coordination advantages are cross-business synergies that are based on systemic innovations. Systemic innovations consist of a set of complementary innovations which only derive the full economic benefit together as a 'system'. These innovations usually require high levels of mutual adaptation such as simultaneous changes in R&D and changes in adjunct stages of production (cf. Foss 1997; Teece 1986; Lazonik 1991; Langlois & Robertson 1995; Langlois 1997). An example of a systemic innovation is Polaroid's instant photography. Polaroid needed to develop new camera technology *and* a complementary new film technology (Chesbrough & Teece 1996).

[12] Mutual adjustment is the process through which people use their judgment rather than standardized rules to address problems, guide decision making, and promote coordination (e.g., Jones 2007).

2.4 The existence of cross-business synergies

Researchers in strategic management have for a long time questioned whether cross-business synergies do actually exist. They have doubted whether the corporate level (i.e. the vertical relationships between the corporate center and the businesses and the horizontal relationships between the businesses) has a real effect on firm performance. While early studies have attributed differences in firm performance primarily to industry and/or business-level effects (e.g., Wernerfelt & Montgomery 1988; Rumelt 1991), recent studies with improved sampling and more elaborate statistical methods have suggested corporate effects of up to 18% (e.g., Roquebert et al. 1996). As Bowman and Helfat (2000: 1) conclude:

> *"A revisionist view that corporate strategy does not matter has gained considerable influence in recent years – This view largely stems from empirical results of early variance decomposition studies that found negligible corporate effects associated with profitability differences between businesses. Our analysis of the variance decomposition literature shows this view to be incorrect. [S]tudies as a group show that factors at the corporate level of organizations contribute to profitability differences (...). Corporate strategy in fact does matter."*

The following table provides an overview of selected studies investigating corporate effects (selection criteria for studies: most recent or most frequently cited).

Figure 2-2: Selected studies investigating corporate effects

Article	Sample	Corporate Effect
Rumelt (1991)	Manufacturing firms from 1974 – 1977	Little corporate effect found, business unit effects and industry effects account for 73% of explained variance
Roquebert et al. (1996)	Firms with at least two industry segments from 1985 – 1991	Existence of a corporate effect of 18%
Bercerra (1997)	Cross-industry sample from 1991 – 1994	Existence of corporate effect of up to 12%
McGahan & Porter (1997)	Cross-industry sample from 1981 – 1994	Corporate effect of up to 12% but significant industry differences
Brush, Bromily & Hendrix 1999	Multi-business firms from 1986 – 1995	Corporate parentage matters as much or more than industry
Anand & Byzalov (2007)	Cross-industry from 1978 – 1998	43% of diversified firms systematically outperform the average of the group of focused firms

Sources: presented articles; Martin (2002)

Thus, several recent studies have observed a non-negligible corporate effect, which strongly suggests that cross-business synergies do in fact exist. However, due to their focus on outcomes, these studies do not provide any information on different types of cross-business synergies and their realization.

2.5 Summary and discussion

In this chapter, we laid the basic groundwork for this thesis. After introducing the concept of synergy, we applied it to multi-business firms and formally defined cross-business synergies. We employed an outcome-based definition of synergy and explained that cross-business synergies are the difference between total synergy potential and realization costs. Costs associated with the realization of cross-business synergies were identified to be coordination costs, controlling costs, costs of compromise, and costs of inflexibility. Subsequently, we related cross-business synergies to corporate advantage, which we defined as the ability of a MBF to outperform its single-business competitors. Based on the resource-based view and transaction cost theory, we argued that cross-businesses synergies contribute to corporate advantage if they are either a source of competitive advantage or if the firm has transaction and/or agency advantages in realizing them. Finally, we reviewed studies on the corporate effect that strongly suggest that cross-business synergies are not just an appealing theoretical concept but that they exist in reality. Due to their outcome focus, however, these studies do not reveal any insights into the types of cross-business synergies and their realization and thus reiterate our research objectives.

3 Types of Cross-business Synergies

In the previous chapter, we provided a definition of cross-business synergies and identified conditions under which cross-business synergies contribute to corporate advantage. The purpose and contribution of this chapter is to derive various sources of cross-business synergies from the literature and categorize them into specific synergy types. This chapter seeks to answer our first research question and aims to generate further insights into the nature of the corporate effect. Furthermore, this chapter establishes a dedicated research perspective on cross-business synergies, which sets the stage for our in-depth investigation of growth synergies in the second part of this study.

Several streams of literature ranging from industrial economics to financial theory and strategic management refer to the concept of cross-business synergy. However, theoretically grounded typologies of cross-business synergies are largely absent from the literature. Most typologies are arbitrary. For instance, Ansoff (1965) differentiates sales synergy, operating synergy, investment synergy, and managerial synergy as types of cross-business synergies without providing proper definitions, classification criteria, or theoretical grounding.[13] Similarly, in a more recent typology, Goold and Campbell (2000) classify synergies randomly without a clear underlying logic into shared know-how, shared tangible resources, pooled negotiation power, coordinated strategies, vertical integration, and combined new business generation.[14]

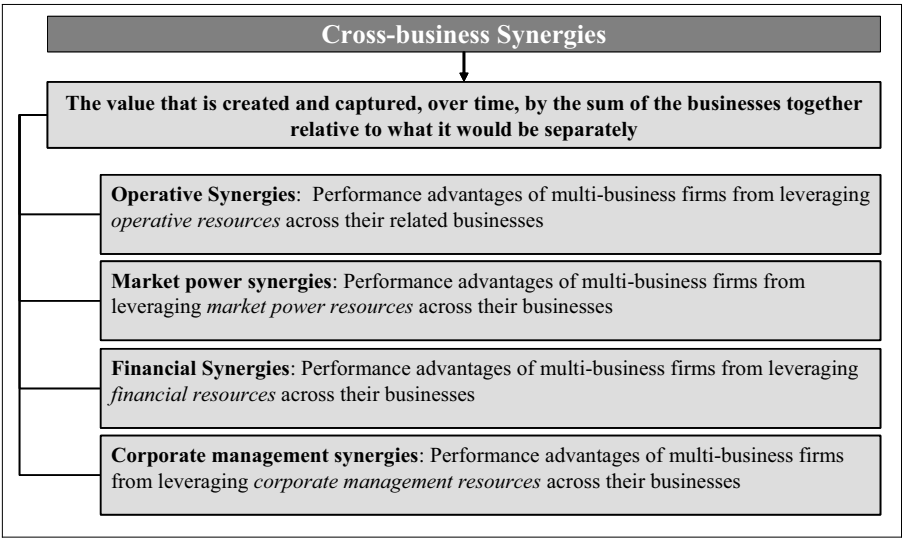
By providing a typology that clearly delineates different sources of cross-business synergies based on the latest research, we aim to address this shortcoming. Our synergy typology is grounded in a resource-based perspective of the firm. Following Barney (1991), we employ a broad notion of resources, which we define as "*(...) all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc., controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness*" (Barney, 1991:101). We posit that leveraging resources across businesses creates cross-business synergy and delineate different types of cross-business synergies based on four classes of resources (see exhibit 3-1 on the next page): operative resources, market power resources, financial resources and corporate management resources. *Operative resources* refer to the tangible and intangible business-level resources necessary for ongoing operations. *Market power resources* entail all sources of the firm to reduce competition and increase prices. *Financial resources* include the firm's risk capacity and all means of financing. Finally,

[13] This critique is not supposed to discount Ansoff's (1965) seminal contribution to the field of synergy management. We simply want to suggest that his synergy classification can be improved building on theoretical and empirical insights into the phenomenon that have accumulated over the last four decades.

[14] Again, this is not to say that Goold and Campbell's synergy typology is not practically useful. However, it does not reflect the scientific rigor required for a proper classification of cross-business synergies.

corporate management resources refer to managerial capabilities at the corporate level.

Figure 3-1: Types of cross-business synergies



Source: author

Based on these resources, we conceptualize four types of cross-business synergies: *Operative synergies* focus on advantages of MBFs from leveraging operative resources across their related businesses that increase efficiency and profitable growth. *Market power synergies* center on advantages of MBFs from conglomerate power that reduce business-level competition. *Financial synergies* concentrate on financial advantages of MBFs that reduce capital costs and increase the firm's financial flexibility. In addition to these three types, which we derive directly from the literature, we propose a fourth type of cross-business synergies, *corporate management synergies*. Corporate management synergies focus on advantages of MBFs from leveraging corporate management resources that improve the profitability of the individual businesses of the firm.

The typology is based on an in-depth review of academic publications including an analysis of all relevant articles of the last three decades from leading scholarly journals in strategic management.[15] The theoretical analysis is complemented with some ex-

[15] Our review comprises the following journals: Administrative Science Quarterly, Academy of Management Journal, Academy of Management Review, Journal of Economics and Business, Journal of Finance, Journal of Financial Economics, Journal of Management Studies, Strategic Management Journal, Management Science, Organizational Science, and Organizational Studies, Rand Journal of Economics, Journal of Management, Long range planning, California Management Review, and Harvard Business Review.

ploratory empirical work for corporate management synergies, as the existing literature has not provided sufficient information for their conceptualization.

What follows is an in-depth investigation of the different types of cross-business synergies (chapters 3.1 – 3.4). We structure the analysis of each synergy type in four steps: We begin by introducing and describing the cross-business synergy type. Subsequently, we classify different sources of that synergy based on a more fine-grained analysis. Finally, we discuss the contribution to corporate advantage applying the insights from the previous section.

3.1 Operative synergies

Literature on the related diversification of firms argues that MBFs can generate corporate value by leveraging *operative resources* across businesses (cf. Ansoff 1965; Dundas & Richardson 1980; Kay 1982, 1984; Teece 1980; Porter 1985; Jones & Hill 1988; Markides & Williamson 1994; Barney 2007; Martin 2002; Collis & Montgomery 2005). Operative resources refer to the tangible and intangible business-level resources necessary for ongoing operations such as product knowledge, product components, and productions plants. We term the first type of cross-business synergy that we derive from the literature operative synergies and define them as follows:

Definition of operative synergies

Operative synergies are performance advantages of multi-business firms from leveraging operative resources across their related businesses.

In the following, we first classify two different types of operative synergies (3.1.1) and then discuss the impact of operative synergies on corporate advantage (3.1.2). We close with a summary and discussion (3.2.3).

3.1.1 Classification of operative synergies

Our review of diversification literature suggested two classes of operative synergies that differed in their primary outcome: efficiency synergies and growth synergies. In the following, we first discuss these two classes of operative synergies and then compare them to highlight the differences.

(1) Efficiency synergies

We define efficiency synergies as efficiency advantages of MBFs from sharing similar operative resources across businesses:

Definition of efficiency synergies

Efficiency synergies are efficiency advantages of multi-business firms from sharing similar operative resources across businesses.

In strategic management literature, efficiency synergies are conceptualized through *economies of scope* (Panzar & Willig 1981; Bailey & Friedlander 1982).[16] Economies of scope exist if "(…) *it is less costly to combine two or more product lines in one firm than to produce them separately*" (Panzar & Willig 1981: 4). Scope economies result from sharing resources in the production of multiple products across businesses, which leads to lower joint costs of production by putting underutilized resources to productive use (Panzar & Willig 1981; Bailey & Friedlander 1982). Economies of scope can be expressed in terms of businesses instead of product lines to conceptualize efficiency synergies. Economies of scope between two businesses exists if the total cost of producing the output of two businesses 'Y1' and 'Y2' together within one firm (C(Y1, Y2)) is less than the combined cost of producing each output in two separate firms (C(Y1) + C(Y2)). The equation below provides a formal expression of economies of scope:

Economies of Scope between two businesses exist, if:

$$C(Y1, Y2) < C(Y1) + C(Y2)$$

Where C = total costs of production, Y1 = output of business 1, and Y2 output of business 2.

The focus of economies of scope has traditionally been on the physical production process (Panzar & Willig 1981). However, later research has indicated that scope economies may also occur in other value chain functions such as research and development (e.g., Davis & Tomas 1993), and may also involve intangible resources such as reputation and best practices (e.g., Montgomery & Wernerfelt 1982; Prahalad & Hamel 1990; Milgrom & Roberts 1992; Szulanski 1993). Over time, a variety of sources for cost reductions from scope economies have been suggested by studies in related diversification (cf. Bailey & Friedlander 1982; Markides & Williamson 1994; Martin 2002; Collis & Montgomery 2005); they include (Martin 2002: 21):

[16] Some scholars include economies of scale as a source of efficiency synergies. While economies of scale are often involved in the realization of operative synergies, they are not a real source of cross-business synergies because single business firms can also realize scale economies. The *key difference between economies of scope and scale is* that "(…) economies of scale relate to cost economies from increasing the scale of production for a *single product*; economies of scope are cost economies from producing increasing output across *multiple products*" Grant (2005: 456, emphasis added). Nevertheless, scale economies frequently arise in conjunction with scope economies (e.g. Collis & Montgomery 2005).

- the creation of separate products that naturally arise from a shared input between businesses (e.g. a sheep may be the shared input to produce lamb and wool).
- the presence of a fixed factor of production that is not fully utilized in the production process (e.g. an automobile manufacturing plant is used to produce cars from different divisions).
- networking economies that reduce the costs of producing networked products together rather than separately (e.g. the use of airline hubs to facilitate transfer of passengers from one airline hub to another)
- reusing of an input in more than one business (e.g. using a manuscript or character to produce novels, comics, movies, and soap operas).
- sharing of intangible assets between businesses (e.g. leveraging an umbrella brand across businesses, transfer of a best practice).

MBFs can concentrate and transfer numerous kinds of tangible and intangible resources across businesses to achieve efficiency synergies. Consequently, it is impossible to provide an exhaustive list.

A common strategy for achieving efficiency synergies is concentrating selected value chain activities such as basic research and IT service across businesses (cf. Porter 1985, Collis & Montgomery 2005, Barney 2007). Another common way is the transfer of functional best practices across businesses (e.g., Collis & Montgomery 2005).

(2) Growth synergies

We define growth synergies as profitable growth advantages of MBFs from (re)combining and transferring complementary operative resources across their businesses:

Definition of growth synergies

Growth synergies are profitable growth advantages of multi-business firms from (re)combining complementary operative resources across businesses.

An increasing number of firms focus their cross-business activities on achieving growth synergies. For instance, in a recent survey of cross-business collaboration in 116 European MBFs, over 70% of corporate managers indicated that the realization of growth synergies is a corporate priority in their firm and that the importance of growth synergies will increase in the future (Müller-Stewens & Knoll 2006). While growth synergies seem to be an important issue in managerial practice, they are a neglected field of study in strategic management research. Existing research on operative synergies has almost exclusively focused on efficiency synergies (e.g., Ramanujam & Vara-

darajan 1989; Palich et al. 2000). Only recently have researchers established 'valuable revenue superadditivities' as a concept for formalizing growth synergies (cf. Milgrom & Roberts 1990, 1995; Harrison et al. 2001; Tanriverdi & Venkatraman 2005). Valuable revenue superadditivities exist, if the total revenue from utilizing the resource bases of two businesses 'X1' and 'X2' together within one firm (R (X1, X2)) is greater than the combined revenue from utilizing the individual resource bases in different firms[17] and if the value from these revenues (V(R(X1, X2)) is greater than zero.[18] The equation below provides a formal expression of valuable revenue superadditivities:

Valuable revenue superadditivities between two businesses exist if:

$$R(X1, X2) > R(X1) + R(X2) \wedge V(R(X1, X2) > 0$$

Where R = total revenues, V = Value/Performance, X1 = resource base of business 1, and X2 resource base of business 2.

Researchers in strategic management have just recently begun to uncover the sources of growth synergies and have not yet clarified them sufficiently. It seems to emerge from this early research however, that growth synergies are based on dynamic (re)combinations of complementary resources across businesses to capture market opportunities rather than on static sharing of similar resources across businesses to increase their utilization (cf. Eisenhardt & Galunic 2000; Eisenhardt & Martin 2000, Martin 2002; Helfat & Eisenhardt 2004, Tanriverdi & Venkatraman 2005, Müller-Stewens & Knoll 2006). To illustrate: Efficiency synergies are achieved through sharing a similar resource such as a production plant across businesses that is better utilized. In contrast, growth synergies are achieved through combining resources such as product components across businesses into solutions to provide unique customer value.

Thus, complementary resources that can be combined across businesses seem to be the key to achieving growth synergies. However, what exactly are complementary resources? Two resources are complementary when they provide 'something that com-

[17] Mathematically this phenomenon is expressed through supermodularity (cf. Amir 2003; de Macedo & Martins 2005). A function is supermodular if and only if $f(x \vee y) >= f(x) + f(y) - f(x \wedge y)$ for any x and y in X; whereas X is a finite set and f is a function on the subsets of X into R . The arguments of this function are called Edgeworth complements. Hereby is N a set X with the property that for any x and y $(x \wedge y)$ in N, there exist an element of N larger or equal to x and y, and there exists an element smaller than or equal to x and y. Such a set of X is called lattice. A sublattice is a subset of a lattice which is closed under the operations of meet $(x \wedge y)$ and joins $(x \vee y)$. A sublattice mathematically expresses complementarity. If a solution x is chosen from a sublattice of N into Rn, then it means that increasing the value of one variable never prevents increasing the others as well. The concept of supermodularity expresses the idea that the »whole is more than the sum of its parts« and therefore is a synergy conceptualization.

[18] This condition is necessary to make sure that the combined revenues indeed lead to an increase in total firm value. In other words it is necessary to ensure that synergistic growth is profitable (revenues > costs).

pletes the whole', i.e. when they are mutually reinforcing (cf. Milgrom & Roberts 1990). Two resources are mutually reinforcing when accumulating more of one stock of resources increases the returns from accumulating more of another stock of resources and vice versa (Milgrom & Roberts 1990 & 1995). The equation below provides a more formal definition:

Suppose two resources R1 and R2 can be present in the firm (Ri = R1 $\vee$ R2) or not (Ri = 0).

R1 and R2 are complementary only if:

$V(R1, R2) - V(0, R2) \geq V(R1, 0) - V(0, 0)$

Where V = Value/Performance, R1 = Resource 1, and R2 = Resource 2.

In words: Two resources R1 and R2 are complementary when increasing the level of one resource while already having a certain level of the other resource in place [V (R1, R2) – V (0, R2)] has a higher incremental effect on value (V) than when just employing the resource in isolation [V (R1, 0) – V (0, 0)].[19] In such a case the function V(x) is said to be *supermodular* and its arguments R1 and R2 are said to be Edgeworth complements (cf. Milgrom & Roberts, 1991, 1995).[20] Complementary resources are "not identical, yet they simultaneously complement each other" (Harrison et al. 2001: 679-690).

While researchers have begun to identify bundles of complementary resources (cf. Farjoun 1998; Larsson & Finkelstein 1999; Song et al. 2005), the insights are still sparse. So far, only Tanriverdi & Venkatraman (2005) have provided statistically significant results for complementary resources that lead to growth synergies. In their study of 303 multi-business firms, they show that product knowledge, customer knowledge, and managerial knowledge resources are complementary and measure a significant market-based and accounting-based corporate performance effect from simultaneously exploiting these resources across businesses.

Most research on growth synergies is highly abstract and neither provides nor suggests any tangible information on how to realize growth synergies. Part II of this dissertation addresses this gap by suggesting strategies for achieving growth synergies and empirically deriving success factors for their realization.

[19] Or, put differently: A set of resources is complementary when doing more of any one of them increases the returns to doing more of the others.

[20] Please refer also to the works of Samuelson (1947, 1974), who was the first to introduce the concept of complementarity into the field of economics.

(3) Comparison of efficiency and growth synergies

While efficiency synergies and growth synergies are both classes of operative synergies, they appear to be largely different phenomena. Figure 3-2 compares their characteristics.

Figure 3-2: Comparison of efficiency and growth synergies

	Efficiency Synergies	**Growth Synergies**
Primary Effect	Increased efficiency	Increased revenues
Conceptualization in strategic management	Cost subadditivities (economies of scope)	Revenue superadditivities
Primary Value Driver	Operational efficiency	Customer utility, innovation
Realization Mechanism	Concentration or transfer of similar resources across businesses	Combination of complementary resources across businesses
Primary Focus	Internal focus on similarities in value chain functions	External focus on customers and markets to spot combination opportunities
Level of Dynamism	Rather static: sharing of resources over long periods of time	Rather dynamic: combination of resources to exploit temporary opportunities
Examples	Central shared services, shared salesforce, central production plant	Cross-business solutions, new products from combined resources across businesses

Source: author

The primary effect of efficiency synergies is reduced costs due to cost subadditivities across businesses, while the primary effect of growth synergies is profitable growth due to valuable revenue superadditivities across businesses. The primary value driver of efficiency synergies is increased operational efficiency from centralizing or transferring similar operative resources across businesses (e.g., shared IT system, transferred best-practice in production). In contrast, the primary value drivers of growth synergies are increased customer utility and innovation from combining resources across businesses to address external market opportunities (e.g., new integrated solution based on components from different businesses). Furthermore, efficiency synergies are rather static as they share common resources over long periods of time (e.g. ongoing sharing of an IT system), whereas growth synergies are rather dynamic as they combine resources to exploit temporary market opportunities (e.g., integration of components into a solution to exploit market opportunities).

While different, cost and revenue synergies are not mutually exclusive. They frequently occur together. For instance, a shared sales force (efficiency synergies) may support the sale of solutions that resulted from combining resources across businesses (growth synergies).

3.1.2 Impact of operative synergies on corporate advantage

In the following, we draw on existing research on related diversification to derive the impact of operative synergies on corporate advantage.

(1) Operative synergies as sources of competitive advantage

Operative synergies lead to corporate advantage if they are a source of competitive advantage (cf. Barney 2007). Evidently, according to the resource-based view this is the case if they are based on valuable, rare, and difficult to imitate resources (cf. Barney 2007). What are such resources in a cross-business context? While such resources may be idiosyncratic to the firm, a few studies in diversification research have delineated intangible resources as a particularly salient resource class for MBFs to achieve corporate advantage. For instance, Miller (2006) shows that firms with higher investments in intangible assets outperform diversified firms with less opportunity to create operative synergies from knowledge assets and those more dependent on tangible assets. Similarly, Nayyar (1993) finds that the ability of service companies to share corporate reputation across businesses has an important influence on corporate performance in diversification.

When growth synergies are based on valuable and rare resources, they are likely to be a particularly sustainable source of corporate advantage. As discussed, growth synergies result from the combination of resources. Resource combinations create interconnected asset stocks, which are difficult to observe and imitate (e.g., Porter 1996; Rivkin 2000; Harrison et al. 2001; Tanriverdi & Venkatraman 2005).

(2) Transaction/agency advantages in realizing operative synergies

Some studies in diversification literature suggest that MBFs may even achieve a corporate advantage from leveraging resources across businesses that are not rare and difficult to imitate because they have transaction advantages over the market. Most of these studies focus on mediation advantages of MBFs. For instance, Khanna and Palepu (1997, 1999, 2000 a/b) have shown that MBFs in developing economies with inefficient markets such as China, India or Chile can achieve a corporate advantage from acting as a synergistic ‘broker’ for their internal businesses. We illustrate their reasoning by showing how MBFs in inefficient product markets can have a corporate advantage through operative synergies (from Khanna & Palepu 1997 and Khanna et al. 2005): In inefficient product markets, buyers and sellers suffer from a severe lack of information due to an underdeveloped communication infrastructure, the absence of

independent consumer information organizations as well as consumer research firms, and premature product liability laws. These inefficiencies make it difficult for firms to obtain data on consumer behavior and customer tastes. Furthermore, consumers cannot easily obtain information on the quality of the goods and services they want to buy. In such markets, operative synergies from a strong corporate brand or a common market research department can be a basis for corporate advantage even if the shared resources (common brand, common market research) are not a source of competitive advantage per se, because they are not rare and can be imitated. The argument is the following: In an inefficient product market, it is difficult and expensive to build a new brand with loyal consumer followings. Single business firms may not be able to afford the necessary investments. However, the operative synergies an MBF can obtain from a shared brand (efficiency synergies) make the investment worthwhile. The MBF has a corporate advantage that helps the individual businesses in outperforming their single-business rivals. However, when the efficiency of the product market increases and customers can more easily obtain product information and verify product quality, the corporate advantage from a shared brand erodes, even though the efficiency synergies from sharing the brand remain the same (cf. Palepu & Khannan 1997). Thus, the basis of the corporate advantage is the mediation advantage of the firm rather than the value of the brand itself. While most research on mediation advantages focuses on developing economies (e.g., Khanna & Palepu 1999, 2000 a/b), mediation advantages can also occur in the 'developed' world. Quite often, markets are often not as efficient as they might seem. Private equity firms regularly exploit this condition. They provide mediation advantages for their businesses (the firms in which they have a significant equity stake).

In addition to mediation advantages, MBFs may have coordination advantages in realizing operative synergies. For instance, in a recent study of the British building industry, Cacciatori and Jacobides (2005) suggest that MBFs can produce integrated building solutions consisting of design, engineering, and project management more efficiently than specialized firms (single business firms) because they have coordination (and associated learning) advantages. The recent strategies of MBFs such as IBM, Siemens, and General Electric to derive growth synergies from integrating components across businesses into integrated solutions may also follow this logic. These MBFs may outperform more focused competitors that offer only parts of the solution because of lower coordination costs in their development. The development and sale of integrated solutions requires frequent mutual adjustments among the developing parties and sales teams (cf. Teece 1986; Chesbrough & Teece 1996). MBFs may be able to create internal organizational designs that are more suitable for mutual adjustments than a group of single businesses firms that cooperates through market contracts or alliances (cf. Williamson 1975; Chandler 1977; Jones & Hill 1988; Gupta & Govindarajan 1991). Thus, MBFs may have a corporate advantage in realizing integrated solu-

tions even if the underlying synergistic resources (e.g., combined components) are not themselves a source of competitive advantage.

3.1.3 Summary and Discussion

This section introduced and classified operative synergies as the first type of cross-business synergy that we derived from the literature. We showed that operative synergies can contribute to corporate advantage by better utilizing valuable resources that are rare and difficult to imitate or by exploiting transaction and agency advantages of the firm. Intangible knowledge resources, mediation advantages and coordination advantages seemed to be particularly salient sources of corporate advantage. Furthermore, we delineated efficiency and growth synergies as two distinct classes of operative synergies and provided evidence of their different nature. Whereas efficiency synergies focus on cost subadditivities from the concentration or transfer of similar resources, growth synergies focus on valuable revenue superadditivities from the combination of complementary resource across businesses. While efficiency synergies are well grounded in diversification literature, the concept of growth synergies is just emerging and requires further clarification.

Operative synergies are at the heart of the rationale of related diversified MBFs. As many MBFs have recently refocused their corporate portfolios on a strong company core with related businesses (e.g., Zook & Allen 2001; Zook 2004; Raisch, Gomez & Probst 2007), the importance of operative synergies is likely to increase in the future. To fulfill the growth rates demanded by investors, MBFs will not only focus on increasing their efficiency through cross-business collaboration but will also pursue growth synergies with high priority (e.g. Müller-Stewens & Knoll 2006).

3.2 Market power synergies

A second type of cross-business synergy that emerged from our review of the literature is market power synergies. Economics literature suggests that MBFs can generate corporate value from leveraging market power across their businesses, which reduces the level of direct competition (e.g., Porter 1980; Caves 1981). The argument is that reduced competition contributes to an increase in prices and corporate revenues and thus creates synergy. We define market power synergies as follows:

Definition of market power synergies

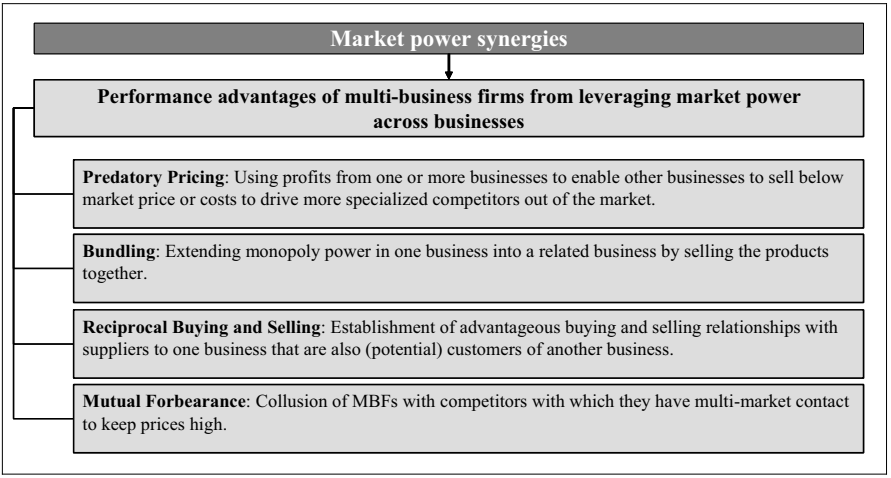
Market power synergies are performance advantages of multi-business firms from leveraging market power across their businesses.

This section proceeds as follows: We first classify different strategies for achieving market power synergies (3.2.1) and then assess their impact on corporate advantage (3.2.2). We close with a brief summary and discussion (3.3.3).

3.2.1 Classification of market power synergies

The literature suggests that MBFs can principally employ four strategies of anticompetitive behavior to gain market power advantages over single-business firms (Barney 2007; Martin 2002; Grant 2005a): (1) Predatory pricing, (2) bundling, (3) reciprocal buying and selling, and (4) mutual forbearance. Figure 3-3 below gives an overview.

Figure 3-3: Strategies for achieving market power synergies



Source: author

Predatory pricing involves the use of profits from one or more businesses of the firm to enable other of its businesses to sell below market price. Through *bundling*, MBFs can leverage the monopoly power that they have in one business into related businesses. Through *reciprocal buying and selling*, MBFs establish beneficial reciprocal arrangements with suppliers that are also (potential) customers. Through strategies of *mutual forbearance*, firms reduce competition with other MBFs with which they have multi-market contact.

(1) Predatory pricing

MBFs can use their profits from one or more of their businesses to enable their other businesses to sell below market price or even below costs (cross-subsidization). The intent that MBFs pursue with predatory pricing is to discipline or drive out more specialized competitors that do not have the ability to match their financial strength (Sa-

loner 1987; Tirole 1988; Besanko et al. 2000; Grant 2005a; Barney 2007). The rationale is that short-term losses from predatory pricing are offset by long-term advantages of higher prices and/or increased market share when the competitor has left the market or stopped its expansion efforts (Saloner 1987). Multi-business firms do not necessarily have to engage in predatory pricing to benefit from market-power synergies. If the firm signals a credible threat to employ predatory pricing, it may deter the entry of new competitors (Saloner 1987). An example of predatory pricing is the attempt by France Telecom's Wanadoo broadband service business in the late 1990s to preempt the market for high-speed Internet access by selling its internet access services to customers below costs. While conceptually appealing, empirical evidence for predatory pricing is purely anecdotal and it is unclear whether the strategy actually leads to cross-business synergies.

(2) Bundling

A related strategy of MBFs for leveraging market power across their businesses is bundling. When an MBF has monopoly power in one of its businesses, it may be able to extend this power into a related business by bundling the two products together (Martin 2002; Barney 2005). If the bundle is sold at a substantially lower price than the individual products, bundling is a special form of predatory pricing because it keeps market prices for comparable stand-alone products artificially low (cf. Martin 2002). An example of market power through bundling is Microsoft's integration of its Explorer web browser in its Windows operating system. This move significantly weakened Netscape's initial leadership in this market (Barney 2005). As in the case of predatory pricing, there is only anecdotal evidence for bundling.

(3) Reciprocal buying and selling

In multi-business firms, suppliers to some businesses may also be potential customers to other businesses. In that case, multi-business firms can realize market power synergies by entering buying and selling arrangements with these suppliers (Saloner 1987; Palich et al. 2000; Grant 2005a), which are by definition not available to single business competitors (Martin 2002). The MBF prefers suppliers which are loyal customers in one of their businesses. Value is generated through additional (or maintained) revenues and profits from these buying-selling-agreements. The potential for reciprocal buying and selling is assumed to be greatest in emerging markets countries which are dominated by few large conglomerates (Grant 2005a). Similar to the two preceding strategies for achieving cross-business synergies from market power, empirical evidence for reciprocal buying and selling is purely anecdotal and it is unclear whether the strategy actually increases corporate performance.

(4) Mutual forbearance

If MBFs compete simultaneously in multiple markets (multi-point competition), they may achieve market power synergies through strategies of mutual forbearance that enable them to keep prices high across their products and markets (cf. Karnani & Wernerfelt 1985; Jayachandran et al. 1999; Greve & Baum 2001; Martin 2002; Grant 2005a). Specifically, mutual forbearance is "(…) *the ceding of control of one product or geographic market to a competitor in exchange for that competitor's acquiescence in another market. This may occur when two or more competitors, operating in multiple common markets, have sufficient resource endowments to pose a credible threat to each other. Recognizing the possibility of mutual harm, they act to cooperate"* (Golden & Ma: 2003: 479). Golden and Ma (2003) provide an illustrative example of mutual forbearance in the context of multi-market competition:

> *"[I]n the early 1990s, Northwest Airlines faced significant overcapacity on its routes to the West Coast. To mitigate this excess capacity, Northwest lowered fares to certain West Coast markets, many of which were critical to Continental Airlines. In reaction to this fare change, Continental lowered its fares in the Minneapolis market—Northwest's most important market, both symbolically and financially. Then, having apparently recognized Continental's competitive signal, Northwest responded by increasing its West Coast fares to their original levels (Wall Street Journal, 1990). This series of interactions ended in a state of mutual forbearance (...)"* (Golden and Ma 2003: 479)

Multiple cases of mutual forbearance have been observed (e.g., Gimeno & Woo 1994, 1999; Barney 2002; Golden & Ma 2003). Game theory has theoretically confirmed strategies of mutual forbearance in the context of multi-market competition (Bernheim & Whinston 1990; Smith & Wilson 1995). Empirical studies in the airline industry (Evans & Kessidis 1994, Baum & Korn 1996) and in manufacturing (Hughes & Oughton 1993) indicate that multi-market contact has a positive effect on industry profitability. While strategies of mutual forbearance are most likely to be pursued by MBFs that have contact in multiple geographical markets for the same product or service, it may also occur among MBFs that have contact in multiple product markets (Barney 2005).

3.2.2 Impact of market power synergies on corporate advantage

Whether MBFs are able to extract synergies from leveraging market power across their businesses or not has not been empirically confirmed yet. However, if they succeed, the resulting cross-business synergies are likely to be sources of corporate advantage as single business competitors cannot generally create these synergies. Single business competitors usually lack the "deep pockets" for financing predatory pricing (cf. Tirole 1988), do not have the multi-market contact to engage in strategies for mutual forbear-

ance, and per definition cannot engage in reciprocal buying and selling (cf. Smith & Wilson 1995; Bernheim & Whinston 1990).

3.2.3 Summary and Discussion

This section has introduced market power synergies as a second type of cross-business synergies that we have derived from the economics literature and discussed several strategies for achieving them. We have explained how MBFs leverage market power across their businesses through predatory pricing, bundling, reciprocal buying and selling agreements, and mutual forbearance. Our review suggests that market power synergies are theoretically mature and can contribute to corporate advantage but that empirical evidence for their existence is limited.

National anti trust laws frequently restrict MBFs in exploiting potential market power synergies. For instance, the European Court of Justice sentenced and fined France Telecom for cross-subsidizing its broadband service business in the late 1990s to preempt the market for high-speed Internet through predatory pricing. Thus, while theoretically appealing, market power synergies might be difficult to realize in practice. Empirical evidence that could prove the contrary is missing.

3.3 Financial synergies

A third type of cross-business synergies that we observed in the literature were financial synergies. Financial and strategic management literature argues that MBFs can create corporate value from leveraging financial resources across their businesses. Financial resources include the firm's risk capacity and all means of financing. We define financial synergies as follows:

Definition of financial synergies

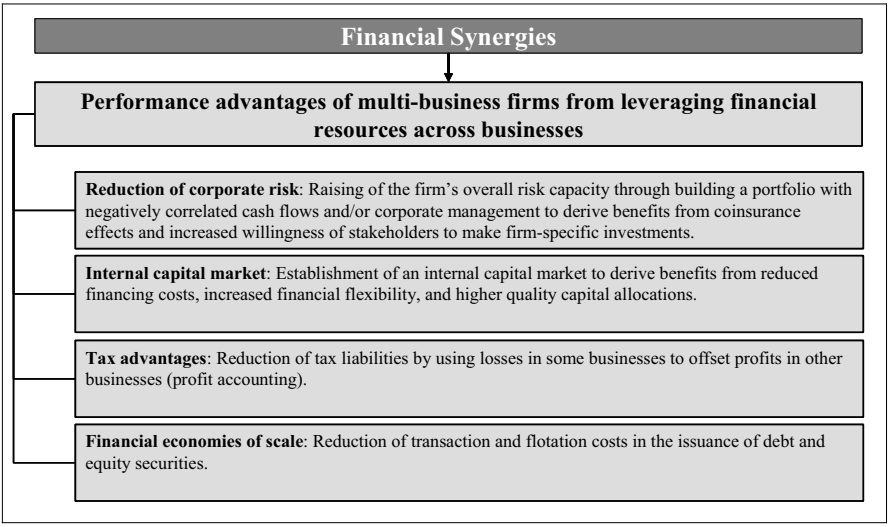
Financial synergies are performance advantages of multi-business firms from leveraging financial resources across their businesses.

Our discussion of financial synergies proceeds with a classification (3.3.1), an assessment of their impact on corporate advantage (3.3.2) and a brief summary and discussion (3.3.3).

3.3.1 Classification of financial synergies

The literature suggests that MBFs can principally derive benefits from financial synergies in four ways: (1) reduction of corporate risk, (2) establishment of an internal capital market, (3) tax advantages, and (4) financial economies of scale. Figure 3-4 (on the next page) gives an overview.

Figure 3-4: Strategies to derive value from financial synergies



Source: author

Reduction of corporate risk involves increasing the firm's overall risk capacity to derive benefits from coinsurance effects and increased willingness of stakeholders to make firm-specific investments. The establishment of an *internal capital market* derives benefits from reduced financing costs, and increased financial flexibility, and higher quality capital allocations. *Tax advantages* involve the reduction of corporate tax liabilities by using losses in some businesses to offset profits in other businesses. *Financial economies of scale* entail the reduction of transaction and floatation costs in the issuance of debt and equity securities.

(1) Reduction of corporate risk

MBFs can derive advantages from reducing the overall risk of the returns of the combined firm. We first explain how MBFs can lower their corporate risk and then how they can derive value from reduced risk. MBFs can reduce their risk in two ways: First, by constructing a portfolio of businesses with imperfectly correlated cash flows or second through managerial actions.

- **Business Portfolio with negatively correlated cash flows:** According to modern portfolio theory (Markowitz 1952), a portfolio of businesses with negatively correlated cash flows has a lower standard deviation than each single business in the portfolio (cf. Brealey et al. 2005). In other words, the risk of engaging in multiple businesses with negatively correlated cash flows simultaneously (diversified multi-business firm) is lower than the risk of engaging in either business by itself (fo-

cused single-business firm).

- **Managerial actions:** Managerial actions may influence the underlying risk profiles of the combined businesses. This means that the combined returns need not to be a linear extension of historical variances as assumed in modern portfolio theory (e.g. Bettis & Hall, 1982; Lubatkin & O'Neill, 1987; Chatterjee & Lubatkin, 1990). Rather, it is suggested that "*managers can actively intervene to lower corporate risk in a manner not available to shareholders*" (Lubatkin & Chatterjee, 1994). The argument is that managers of MBFs may realize operative synergies which dampen the sensitivity of the firm's returns to general economic disturbances (cf. Lubatkin & Chatterjee, 1994). The assumption is that these synergies are sources of competitive advantage and thus reduce the overall risk of the firm. They enhance the uniqueness of offerings, which equips the firm with "*greater buyer loyalty during cyclical or seasonal downturns*" (Porter, 1985: 120, from Lubatkin & Chatterjee 1994). Firms may achieve this uniqueness, for instance, by combining resources across businesses that allow them to deliver unique customer solutions. Alternatively, they may exploit scope economies to enhance product differentiation at competitive costs. Empirical evidence confirms this logic (see Lubatkin & Chatterjee, 1994).

When MBFs can reduce their overall risk, they benefit in two ways. First, they may lower their cost of debt through coinsurance effects. Second, they may benefit from the increased willingness of stakeholders to make firm-specific investments (cf. Barney 2007).

- **Lower cost of debt through coinsurance effects**: The coinsurance effect[21] refers to the reduction of the bankruptcy risk of marginally profitable MBFs (cf. Levy & Sarnat 1970; Higgins & Schall 1975; Besanko et al. 2000; Ross et al. 2004). If the MBF lowers its overall risk, it also lowers cyclical cash flow fluctuations and thus reduces its risk of bankruptcy. The lower bankruptcy risk leads to higher corporate credit ratings, which reduce the cost of debt for the firm and thus create corporate value.

  Cross-business synergies from debt coinsurance effects can play an important role in corporate business models. For example, the US-based MBF General Electric requires the debt coinsurance effects from its industrial businesses to permit its financial businesses (former GE Capital) to operate on a narrow capital base, which ensures high returns on capital (cf. Grant 2005b). Due to that reason, GE's current CEO, Jeffrey Immelt, is careful to keep a balance between its industrial and capital businesses. As Grant (2005b) observed, Mr. Immelt needs "*(...) to keep GE bal-*

[21] The effect is called debt-coinsurance insurance effect because in the case of bankruptcy, debt holders have a privileged claim on the assets of the firm.

anced [because] if the rapidly growing GE Capital was to account for more than half of GE's earnings, then GE's risk status and earnings multiple might be adversely affected" (Grant 2005b: 351-352).

- **Increased willingness of stakeholders to make firm-specific investments:** The ability of MBFs to reduce their overall risk may influence the willingness of stakeholders such as employees, customers and suppliers to make firm-specific investments. As Barney (2002) puts it, "*a firm's diversification strategy can be thought of as insurance for the firm-specific investments that a firm's employees, suppliers, and customers make in a firm*" (Barney 2002: 425).

  Stakeholders make investments which are specific to the firm, i.e. they make investments that have comparably low value in other firms. This includes, for example, (1) *employees* investing in understanding firm culture and procedures or in establishing informal networks, (2) *suppliers* customizing their products or services and building deep relationships with the firm, and (3) *customers* developing close firm relationships and investing in specialized production facilities to fully utilize the products and services of the firm. With decreasing firm risk, stakeholders are likely to increase these investements

  Valuable firm-specific investments by stakeholders are likely to be particularly beneficial for the firm. They are developed over significant periods and are based on socially complex relations, which make them costly to imitate and thus a likely source of competitive advantage if they are rare (Barney 1991, 2007).

(2) Internal capital market

Another way for MBFs to achieve financial synergies is the establishment of an internal capital market (e.g., Barney 2007). Through an internal capital market, an MBF centrally allocates capital across its businesses to grow them and fund new ventures. Internal capital markets allocate capital to grow existing businesses or fund new ventures (Williamson 1975; Hill 1988; Chatterjee et al. 1992; Lang & Stulz 1994; Liebeskind 2000). Hereby, the businesses compete for corporate investment funds (Williamson 1975; Liebeskind 2000). An internal capital market may lead to benefits from reduced financing costs, increased financial flexibility, and higher quality capital allocations. These benefits can be differentiated based on the efficiency of the external capital market the MBF is operating in:

- **Benefits of an internal capital market in inefficient external capital markets**: In highly inefficient external capital markets, internal capital markets may be the only way for the businesses of the firm to obtain reliable financing or may significantly reduce their financing costs (e.g., Lang & Stulz 1994; Khanna and Palepu 1997; Khanna et al. 2005; Servaes 1996). Highly inefficient capital markets, as can be found in developing countries, are characterized by ineffective institutional

mechanisms (e.g., stock market laws, banking and stock market regulators, and corporate governance norms), missing or underdeveloped intermediaries (e.g., banks, insurance companies, mutual funds, and private equity firms), and an immature financial press and analyst community (e.g., Khanna and Palepu 1997). In such capital markets, accurate information about companies is hard to obtain and it is inherently difficult for investors to hold managers accountable for their actions or align them with shareholders' interests (e.g., Khanna and Palepu 1997; Khana et al. 2005). The result is that investors are reluctant to fund businesses or require high premiums to compensate for their risk. In addition, transaction-costs are high due to the absence of efficient market intermediaries. Under such conditions, an internal capital market that reallocates funds across businesses may be the only viable source of capital for growth or may significantly reduce the cost of capital and the financial transaction costs of the firm (e.g., Lang & Stulz 1994; Servaes 1996).

- **Benefits of an internal capital market in efficient external capital markets:** While internal capital markets seem to be most beneficial if external capital markets are inefficient, they may also have benefits in efficient capital markets. They may increase the quality and flexibility of capital allocation and thus contribute to higher rates of return on invested capital (cf. Besanko et al. 2000; Liebeskind 2000; Miller 2006; Barney 2007). Internal capital markets can lead to *higher quality capital allocations* because corporate managers are likely to have information on the actual performance and future prospects of the firm's businesses that is more accurate than that of external investors (Besanko et al. 2000; Liebeskind 2000; Barney 2007). The information advantage of corporate management stems from better means to force businesses to reveal their information (Barney 2007) and access to proprietary knowledge, which the firm shields from external parties to protect its competitive advantage (Liebeskind 1996, Miller 2006). Internal capital markets may increase the *financial flexibility* of MBFs by acting as 'internal lending institutions' for risky and anti-cyclical investment projects, which would otherwise not obtain capital (Grant 2002, 2005). An internal capital market may allow the firm to take 'big bets' and fund risky projects, which may be a future source of competitive advantage. An example of such a project-funding scheme is the internal competition between divisions for corporate funds of growth projects. For example, Allied Signal, a diversified MBF operating in aerospace, automotive and engineered materials, regularly identifies the 100 highest growth opportunities across its businesses and fully funds them internally with 'corporate money' (cf. Raynor 2000a). Furthermore, an internal capital market can permit the businesses of the firm to make anti-cyclic investments that the capital market would usually not fund. For instance, General Electric's businesses regularly acquire firms in times of economic downturns with internal funds (e.g. Grant 2005b). At these times, firms are usually cheaper to acquire, which allows for higher rates of return in the future.

While empirical studies have shown that MBFs operating in developing economies can profit significantly from an internal capital market (e.g., Khanna and Palepu 1997, 2005), MBFs operating in developed economies seem to have difficulties in emulating the efficiency associated with external capital markets (e.g., Fluck & Lynch 1999, Liebeskind 2000). In this context, Barney (2007) summarizes possible explanations for inefficiencies of internal capital markets: First, corporate managers may lack the skills to allocate capital more efficiently, which is more likely for firms with numerous, very different businesses. Second, corporate managers may not be able to obtain higher quality information as division managers have incentives to report false information about the current performance and future prospects of their businesses to receive more capital (cf. Read 1962; Perry & Barney 1981). Third, corporate managers may continue to invest in poorly performing businesses with grim prospects for the future (so called "dogs") to justify their initial investment decision and to save their image and reputation (cf. Staw 1981, Barney 2002). Finally, corporate managers may invest in new businesses due to managerial hubris (cf. Collis & Montgomery 2005).

(3) Tax advantages

Corporate tax advantages are a third possibility for MBFs to achieve financial synergy (e.g., Barney 2007). Principally, MBFs can profit from tax advantages in two ways: First, if fiscal law permits, they can take advantage of ‘corporate profit accounting’ to use losses in some of their businesses to offset profits in others and thereby reduce their tax liability (e.g. Scott 1977). Second, if interest payments are tax deductible, MBFs may lower their tax liability by increasing their debt capacity (e.g. Stapelton 1982). The premise here is that MBFs have higher debt capacities than comparable single-business firms, which is likely due to coinsurance effects from reduced overall risk (see section on ‘reduction of corporate risk’) and is strongly suggested by the ‘deep pocket’ theory of diversification (cf. Tirole 1988).

(4) Benefits from financial economies of scale

Finally, MBFs may achieve financial synergies by realizing financial economies of scale which result from lower transaction and floatation costs in the issuance of debt and equity securities (Levy & Sarnat 1970). Lower costs stem from size digression effects of certain fixed costs associated with the issuance of securities such as Securities and Exchange Commission registration costs, legal fees, and printing costs. MBFs can spread these costs out over a greater dollar volume of securities because they are usually larger than comparable single business firms are and are thus likely to issuance greater volumes of bonds and/or equities.[22]

[22] Note that technically, financial economies of scale are not cross-business synergies because large single business firms may also benefit from them. However, as multi-business firms are usually larger than comparable single business firms are and due to the fact that capital market transaction costs cannot be ‘outsourced’ by

3.3.2 Impact of financial synergies on corporate advantage

Financial synergies can contribute to corporate advantage by being a source of competitive advantage or through the exploitation of transaction and agency advantages.

(1) Financial synergies as sources of competitive advantage

Commonly, financial synergies are not seen as a source of competitive advantage. Two arguments are usually put forth to support this assertion: The first one is that financial resources are 'generic resources' which are neither rare nor difficult to imitate (e.g., Collis & Montgomery 2005). The other one is that investors can diversify firm-specific risk themselves (e.g., Montgomery & Singh 1984; Teece 1986; Helfat & Teece 1987; Amit & Livnat 1988;)[23] and consequently are not willing to grant MBFs more favorable equity financing conditions than their focused single business competitors.

While financial synergies may not be a direct source of competitive advantage, we have shown throughout this section that they may well be an indirect source. Risk reduction may increase the willingness of stakeholders to make firm-specific investments, which are likely to be a source of competitive advantage. Increased financial flexibility from an internal capital market permits the firm to 'go big' and invest in risky/innovative projects that may later be a source of competitive advantage.

Furthermore, financial synergies may be an important factor in specific corporate business models as we have illustrated with the example of General Electric (GE). GE's corporate business model depends heavily on financial synergies from debt coinsurance effects. Without these synergies, GE's refinancing costs would increase significantly, which would reduce the company's overall profits dramatically. For GE, coinsurance effects are very likely to be a source of competitive advantage.

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single-business firms to gain scale (contrary to production, for instance), we decided to include financial economies of scale as a source of financial synergies.

[23] The complete argument goes as follows: Modern portfolio theory defines firm risk as the variability of stock returns and differentiates between two types of risk: systematic and unsystematic risk. Systematic risk is the portion of risk which varies with general economic movements (overall market risk) and affects the returns of all firms. The level of a firm's systematic risk is "determined by the degree of uncertainty associated with general economic forces and the responsiveness, or sensitivity, of a firm's returns to these forces" (Lubatkin & Cahtterjee 1994: 110). It is measured by the security's beta coefficient in the capital asset pricing model (Brown & Werner 1985). The sources of systematic risk are, for example, changes in monetary and fiscal policies, the cost of energy, tax laws, and the demographics of the market place (Lubatkin & Cahatterjee 1994). Unsystematic risk is the portion of risk which does not vary with general economic movements (business-specific risk). The sources of unsystematic risk are, for example, a loss of a major customer due to the bankruptcy of the customer, the death of a high-ranking executive, a fire at a production facility, and the sudden obsolescence of a critical product technology (Lubatkin & Cahatterjee 1994). The dominant opinion in strategy and finance literature is that only systematic risk matters because stockholders cannot diversify it away themselves as in the case of unsystematic risk (e.g. Jensen 1968; Jensen & Meckling 1976; Teece 1987; Helfat & Teece 1987; Amit & Livnat 1988; Barton 1988; Montgomery & Singh 1984). As systematic risk is by definition non-diversifiable, and stockholders can diversify themselves at lower cost, the simple addition of companies to a corporate portfolio does not add any finacial synergistic value in efficient capital markets.

Management scholars seem to underestimate such indirect contributions of financial synergies to corporate advantage. A reason why this is the case may be that empirical studies do not measure or explore financial synergies directly: They compare the performance of unrelated diversifiers either with related diversifiers or with single business firms. These studies suggest that on average related diversifiers and single business firms outperform unrelated diversifiers (e.g., Amit & Livnat 1988; Hill & Hanson 1991; Palich et al. 2001). From this fact, scholars frequently infer that financial synergies do not contribute to corporate advantage. However, this reasoning is not correct. The empirical results only suggest that diversification strategies *solely* based on financial synergies might be inferior to diversification synergies that leverage multiple sources of cross-business synergies[24]. Nevertheless, while financial synergies might not be the *dominant source* of corporate advantage, this does not mean that financial synergies do not contribute to corporate advantage at all. They may be a valuable additional source of cross-business synergies in related diversifiers or, as we have shown in the case of General Electric, may be essential for certain corporate business models. More research is required to clarify the role of financial synergies in the context of more complex corporate strategies.

(2) Exploitation of transaction advantages

Financial synergies may also contribute to corporate advantage by exploiting transaction and agency advantages. As we have discussed, in inefficient capital markets, MBFs can reduce their financing costs by establishing an internal capital market. This contributes to corporate advantage, as single business competitors do not have this opportunity and are forced to use the expensive external capital market for any investments that exceed their free cash flows.

3.3.3 Summary and Discussion

In this section, we have identified financial synergies as a third type of cross-business synergies and discussed their sources. We have shown that MBFs achieve financial synergies by reducing corporate risk, establishing an internal capital market, and exploiting tax advantages and financial economies of scale. Furthermore, we have presented theoretical arguments for the fact that financial synergies may contribute to corporate advantage by increasing the willingness of stakeholders to make firm-specific investments, reducing debt-financing costs, increasing financial flexibility and exploiting transaction advantages. We concluded that management scholars frequently underestimate the importance of financial synergies.

We close our analysis of financial synergies with two statement that make the case for

[24] Related diversifiers can realize benefits from operative and financial synergies, whereas unrelated diversifiers usually do not have any operative synergy potential.

financial synergies. One is from GE's current CEO, Jeffrey Immelt, and the other from a financial analyst:

> *"We have four strong, powerful long cycle businesses: Power, Medical, Engines, and Transportation. These businesses are strong, number one, with multiple levers to grow earnings through technology and services. Our power business had led the way through the past few years of gas turbine growth and as that turbine market subsides, our Power business will thrive by servicing an installed base that has grown five-fold. Our medical franchise has unlimited opportunities driven by world-class technology, favorable demographics, and global distribution. Our Aircraft Engines business gets even stronger every year as we continue to invest in new engine platforms and technology.* ***The importance of these long cycle businesses is that they give you steady earnings growth over time, with stable product cycles and rapid service growth [note: reference to financial synergies]****. We also have a leadership franchise in our short cycle businesses, like NBC, Plastics, Materials, Consumer, and Industrial businesses. These have been the hardest hit by the downturn, but, so far, in 2002 we are seeing encouraging signs of recovery (...). We have the world's most diversified financial service business with consumer finance, mid-market financing, insurance, equipment management, and specialty segments (...)* ***The importance of GE Capital is that it can use GE's financial and industrial strength to generate superior returns over time (…) [note: reference to financial synergies]****. The GE portfolio was put together for a purpose – to deliver earnings growth through every economic cycle [see figure 3-5 for data on GE's outperformance of the S&P 500 and the nominal gross domestic product].* ***We're constantly managing these cycles in a business where the sum exceeds the parts [note: reference to financial synergies]****." (GE 2002, emphasis added)*

Figure 3-5: GE's Outperformance in every market cycle

Market Cycle	**GE EPS (%)**	**S&P EPS (%)**	**Nominal GDP (%)**
Inflation/Recession (1979-84)	10	5	9
Disinflation/Recovery (1985-88)	10	9	7
Post-'87 Crash/Recession (1989-93)	11	-2	5
Globalization/Growth (1994-98)	15	12	5
Burst of Market Bubbles (1999-00)	17	15	6
Recession/September 11 (2001)	11	-20	-3

Source: GE 2002; EPS = Earnings per share, S&P= Standards & Poor 500 Index, GDP = US Gross domestic product.

The investor community seems to agree with Mr. Immelt's 'financial synergy logic', especially in times of economic uncertainty. As a financial reporter puts it:

> *"Diversified companies like General Electric Co. and 3M Co. are best able to weather slowing domestic economic conditions – which is how 2007 appears to be shaping up, analysts say. While experts aren't unanimously predicting a recession ahead, many are expecting slower domestic growth (...). GE's robust overseas sales could buffer it from a U.S. slowdown. Goldman Sachs analyst Deane M. Dray recently upgraded GE to 'Conviction Buy' from 'Buy.' (...) 'At this point in the cycle, in a moderating growth operating environment and greater uncertainty in the industrial sector, we believe investors will gravitate to GE's late-cycle exposure, high-margin services mix, emerging markets strength, and attractive earnings visibility/consistency,' Dray wrote in a note to investors." (AP 2006)*

3.4 Corporate management synergies

Our review of the literature led us to propose a new type of cross-business synergies, corporate management synergies. Several authors in strategic management explicitly or implicitly argue that some MBFs may possess corporate management capabilities that help each business within the firm to perform at a higher level than it could if it operated as an independent company and consequently generate cross-business synergy (e.g., Ansoff 1965; Bower 1986; Rumelt 1974; Williamson 1975; Goold & Campbell 1987; Prahalad & Hamel 1990; Chandler 1991; Burgelman 1994; Goold et al. 1994; Bowman & Helfat 2001; Anand & Jayanti 2005; Grant 2005a; Hill & Jones 2007). We define corporate management synergies as follows:

Definition of corporate management synergies

Corporate management synergies are performance advantages of multi-business firms from leveraging corporate management capabilities across their businesses.

Scholars in strategic management have not yet conceptualized corporate management synergies. However, some authors refer to the concept. We first review this literature (3.4.1) and then propose a classification of the sources of corporate management synergies (3.4.2). We proceed by discussing the impact of corporate management synergies on corporate advantage (3.4.3) and by presenting an illustrative cases study of corporate management synergies at General Electric (3.4.4). A brief summary and discussion conclude this section (3.4.5).

3.4.1 Existing research referring to corporate management synergies

Corporate management synergies have not yet been conceptualized in strategic management literature. However, some scholars refer to the concept by discussing distinctive corporate activities and capabilities that help individual businesses within the firm to perform better than on a stand-alone basis. What follows is a brief review of this literature.

(1) Discussion by Bowman & Helfat (2001)

In their analysis of the variance decomposition literature, Bowman and Helfat (2002) find evidence suggesting that factors associated with corporate strategy contribute to corporate effects. They hypothesize that corporate managers influences the profitability of the combined firm by shaping (1) the scope of the firm, (2) corporate and business goals, (3) organizational climate, (4) corporate planning and control, (5) organization structures, and (6) core competencies.

(2) Discussion by Hill & Jones (2007)

In explaining benefits of diversification, Hill & Jones (2007) refer to "*general organizational capabilities*", which they define as "*competencies that transcend individual functions or business units and are found at the top or corporate level of the multi business company*" (Hill & Jones 2007:346). These competencies may increase the performance of corporate businesses relative to operating as single businesses and are typically "*the skills of company's top managers and functional experts*" (Hill & Jones 2007:346).

Hill and Jones describe three kinds of general organizational capabilities: (1) entrepreneurial capabilities, (2) capabilities in organization design, and (3) superior strategic capabilities.

- **Entrepreneurial Capabilities.** Entrepreneurial capabilities are the governance capabilities of corporate managers for stimulating business-level managers to act entrepreneurially. Entrepreneurial capabilities are embedded in entrepreneurial management systems of the firm that (1) encourage risk taking, (2) allocate resources for pursuing innovative ideas, (3) permit failures, but (4) also prevent waste and balance overall risk.

- **Capabilities in Organizational Design.** Capabilities in organizational design include the capability of the firm to (1) create structure, culture, and control systems that motivate and coordinate employees, (2) balance exploitation and exploration, and (3) align environment, structure and strategy continuously.

- **Superior Strategic Capabilities.** Superior strategic capabilities refer to the "(…) *certain intangible governance skills to manage different business units in a way*

that enables those units to perform better than they would if they were independent companies" (Hill & Jones 2007: 348). It includes two major abilities of corporate managers: First, the ability to "(…) *recognize ways to enhance the performance of individual managers, functions, and business units*" (Hill & Jones 2007: 348). Second, the ability to "(…) *diagnose the real source of performance problems in underperforming businesses and to take appropriate steps to fix those problems*" (Hill & Jones 2007: 348).

(3) Discussion by Grant (2005a)

Similar to Hill and Jones (2007), Grant (2005a: 458, emphasis added) suggests "(…) *some of the most important capabilities in influencing the performance of diversified corporations are general management capabilities* ***located at the corporate level***."

Grant does not explain what these general management capabilities located at the corporate level are. However, he illustrates his reasoning with examples of General Electric and 3M. He asserts that GE's "*core capabilities lie at the corporate level*" and include "*the ability to motivate and develop its managers, its outstanding strategic and financial management that reconciles decentralized decision making with strong centralized control, and its international management capability*" (Grant 2005a: 458). Similarly, he observes, that "*while 3M's capabilities in technical know-how, new product development, and international marketing reside within the individual businesses, it is the corporate management capabilities and the systems through which they are exercised that maintain, nourish, coordinate, and upgrade these competitive advantages*" (Grant 2005a :468).

(4) Discussion by Goold, Campbell & Alexander's (1994)

Goold, Campbell and Alexander also suggest that corporate management resources are the key to success of MBFs:

> *"(...) Multibusiness companies consist of businesses, many of which could exist independently, and a corporate hierarchy of line managers, functions, and staffs outside these businesses. It is this corporate hierarchy, which we refer to as the corporate parent, that is responsible for making corporate strategy decisions. It is the parent that decides what new businesses to support, what acquisitions to make, and whether to form joint ventures and alliances. It is the parent that determines the structure of the corporation defines the budgeting and capital expenditure processes, and sets the tone for corporate values and attitudes. It is the parent that comes under intense scrutiny during hostile takeover bids, or when large shareholders are dissatisfied with their returns. The parent is at the heart of corporate strategy decisions. Our approach to corporate strategy therefore places the role of the parent in center stage" (Goold, Campbell & Alexander 1994: 6)*

Goold, Campbell and Alexander (1994) attach great importance to the corporate level of the MBF, which they term the corporate parent. They assert that the activities of the corporate parent – and thus corporate management capabilities – determine the success of MBFs. The authors delineate three value-adding corporate parenting activities: (1) stand-alone influence, (2) linking influence, and (3) corporate development.

- **Stand-alone influence**: Stand-alone influence is the influence of the corporate center on the strategies and performance of the individual businesses. Corporate managers exert stand-alone influence by (1) appointing business unit general managers, (2) exerting budgetary control, (3) proving strategy reviews and functional specialist skills, and (4) making capital investment decisions.
- **Linking influence**: Linking influence is the influence of the corporate center on its businesses to realize operative synergies. Corporate managers exert linkage influence by aligning several elements of organization design including decision-making processes and structures, policies and guidelines, and transfer pricing mechanisms.
- **Corporate development activities**: Corporate development is the configuration of the business portfolio and involves the following corporate management activities: buying and selling businesses (acquisitions and divestments), the creation of successful new businesses (internal corporate venturing) and the redefinition of business units (consolidating or splitting).

In conclusion, several authors suggest corporate management capabilities that manifest themselves in several corporate-level activities and have an impact on corporate performance.

3.4.2 Characteristics and classification of corporate management synergies

In this section, we first characterize corporate management synergies and then classify their underlying sources, corporate management capabilities.

(1) Characteristics of corporate management synergies

Corporate management synergies focus on the vertical relationship between the corporate center and the businesses. They capture the performance increases of businesses that directly result from the activities of corporate managers. Corporate management synergies stem from capabilities that shape the corporate context of the firm (cf. Burgelman 1983 a/b, 1991; Bower 1970; Bowman & Helfat 2001; Collis & Montgomery 2005) and that enable corporate managers to provide businesses with managerial advice (cf. Goold et al. 1994).

The potential for corporate management synergies is likely to increase with what we term *managerial relatedness* between the businesses in the corporate portfolio. Mana-

gerial relatedness refers to strategic rather than operational commonalities among the businesses within the firm (cf. Grant 1988; 2005). Managerially related businesses face common management challenges. They portray a common corporate rationale and a common view within the company as to its identity, which Prahalad & Bettis (1986) refer to as 'dominant logic'. Managerial relatedness can be determined by a variety of factors including similar sizes and time spans of capital investments, similar general management skills required by business unit managers, similar stages in the industry lifecycle, similar competitive positions occupied by each business within its industry, and similar time horizons for performance targets (Grant 1988; 2005a). Managerial relatedness between businesses is likely to increase with the similarity of key success factors and strategic assets (cf. Grant 2005a).

Corporate management synergies are different from operative synergies even though both types of synergies derive their value from a firm's combined resource base. Corporate management synergies focus chiefly on the benefits from the vertical relationship between the corporate center and individual businesses, whereas operative synergies focus on the benefits from the horizontal relationships between businesses. Corporate management synergies focus on the fit between individual businesses and the skills of the corporate center, while operative synergies focus on the similarity and complementarity of resources along the value chains of the businesses. Corporate management synergies and operative synergies are different but complementary. For instance, distinct organization design skills of corporate managers for supporting successful cross-business collaboration (corporate management synergies) help the firm's businesses to extract more value from similar and complementary resources (operative synergies).

In conclusion, corporate management synergies conceptualize corporate-level capabilities that directly increase the profitability of businesses as a distinctive source of cross-business synergy. They express the discrete value-adding benefits of corporate management and thus elevate it from a mere context factor to an original source of value. Corporate management synergies extend the corporate role from controlling opportunistic behavior (cf. Williamson 1975) to facilitating value generation at the business level (cf. Foss 1997). They thus bring resource-based arguments of managerial innovation to the discussion, in addition to the efficiency arguments from agency theory and reiterate the increasing conceptualization of corporate management as being a value-adding coach rather than just a necessary controller.

(2) Classes of corporate management capabilities (which are the sources of corporate management synergies)

What are classes of valuable corporate management capabilities? The existing literature seems to refer to three classes of valuable corporate management resources: (1) *corporate functional capabilities* (cf. Prahalad & Hamel 1990; Goold et al. 1994; Grant 2005a), (2) *corporate strategic capabilities* (cf. Hambrick & Mason 1984; Andrews 1987; Prahalad & Hamel 1990; Bowman & Helfat 2001; Burgelman 2002; Grant 2005a; Hill & Jones 2007) and (3) *corporate organization design capabilities* (cf. Chandler 1962, 1977; Williamson 1975; Bowman & Helfat 2001; Goold et al. 2002; Anand 2005; Kaplan & Norton 2006; Hill & Jones 2007; O'Reilly & Tushman 2007; Raisch, Gomez & Probst 2007). We define these capabilities as follows:

- *Corporate functional capabilities* are functional skills at the corporate level that improve the performance of the businesses. An example of a corporate functional capability is the brand management skill of the Virgin Corporation, which improves the performance of its two business airlines and beverages.
- *Corporate strategic capabilities* are general management capabilities at the corporate level that provide strategic guidance for the firm's businesses that helps to improve their competitive positioning. An example of a corporate strategic capability is the skill of Siemens' corporate management to formulate long-term strategies for the firm's businesses based on megatrends.
- *Corporate organization design capabilities* are general management capabilities at the corporate level that support businesses in the formulation and execution of their strategies. An example of a corporate organization design capability is the ability of General Electric's corporate management to design and implement corporate HR processes that help businesses to select, train, and retain key employees.

While corporate functional capabilities are likely to be idiosyncratic to the focal firm, corporate strategic and organization design capabilities seem to be more generalizable. Based on some preliminary exploratory work[25], figure 3-6 (on the next page) provides an overview of exemplary components of these capabilities.

[25] Some exploratory interviews and analysis of secondary data (analyst reports, annual reports, and news articles) on firms associated with superior corporate management including GE, 3M, IBM, Siemens, Philips, Motorola, Honeywell, Haniel, Disney and Ratheon.

Figure 3-6: Corporate strategic and organization design capabilities

Capability	Exemplary Components
Corporate Strategic Capabilities	▪ Formulation of vision, mission, and long-term corporate strategy ▪ Definition of a corporate business model ▪ Identification of corporate value-adding opportunities ▪ Alignment of business portfolio with corporate value-adding opportunities ▪ Providing trend analysis and strategic foresight in strategy reviews ▪ Formulation of key strategic initiatives that drive and balance efficiency/growth and exploration/exploitation ▪ Allocation of capital
Corporate Organization Design Capabilities	Leadership and Style ▪ Corporate-wide selection, training and retention of key talent ▪ Succession planning ▪ Appointment of business unit leaders ▪ Staffing of key management positions from corporate talent pools ▪ Establishment of performance enhancing corporate values/culture ▪ Alignment of leadership and style with corporate and business strategy ▪ Change management
	Management systems ▪ Design/operation of strategic and financial planning systems ▪ Design/operation of corporate control and reward systems ▪ Design/operation of corporate initiative management systems ▪ Design of innovation management systems ▪ Establishment of a company-wide operating rhythm ▪ Alignment of systems with corporate and business strategy
	Structure ▪ Design of corporate structure (e.g., M-form) ▪ Design of cross-business coordination mechanisms ▪ Design of clear and aligned decision rights ▪ Alignment of structures with corporate and business strategy ▪ Alignment of structures with changing opportunities and business needs (recombination of resources)

Source: author

3.4.3 Impact of corporate management synergies on corporate advantage

Corporate management synergies contribute to corporate advantage if they are based on valuable corporate management capabilities that are rare and difficult to imitate.

The *assessment of rarity* leads to the question of whether many firms possess valuable corporate management capabilities or not. While dedicated empirical research that might answer this question is not available, several facts indicate that valuable corpo-

rate management resources may indeed be rare. First, research on management innovation suggests that not many firms possess innovative management practices, processes, or structures that improve firm performance (Birkinshaw et al. 2005; Birkinshaw & Mol 2006). Second, the competition for corporate managers in the labor market is intense, which indicates rarity of corporate management skills (e.g., Learned et al 1969; Chambers et al. 1998). Finally, the huge variety in the performance of conglomerates, which a recent study by Anand & Byzalov (2007) observed makes a further case for the rarity of corporate management resources. Therefore, evidence exists that corporate management synergies are likely to be at least a source of temporary corporate advantage.

Whether corporate advantage is sustainable depends on how *difficult* the *imitation* of corporate management capabilities is. Three factors suggest that corporate management capabilities are difficult to imitate. First, they can only be observed indirectly through their manifestation in strategies, structures, and systems. For instance, competitors can only observe the corporate HR process that is a manifestation of a valuable corporate organization design capability. Second, the relationship between corporate management capabilities and the firm's competitive advantage is likely to be causally ambiguous. For instance, corporate HR processes bundle together a large number of organizational attributes that are interconnected.[26] This makes it difficult for competitors to understand exactly which attributes they need to imitate. Even if they figure out the relevant resources and capabilities, they still face the implementation challenge. They have to make a number of coordinated changes in their management systems (cf. Porter 1996), which is difficult and takes time. The fact that incomplete imitation of complex systems may even reduce performance further increases the implementation risk (Milgrom & Roberts 1995; Rivkin 2000). Third, corporate management capabilities are likely to be socially complex. For instance, a corporate HR process is to some extent a social phenomenon based on interpersonal relationships and organizational routines which evolve over significant periods of time and which are not under the full control of corporate managers (cf. Nelson & Winter 1982). The imitation of such socially complex capabilities and resources is likely to be difficult.

In conclusion, not all corporate management capabilities will contribute to corporate advantage. However, if a firm possesses unique corporate management capabilities, chances are high that they contribute to corporate advantage due to their causal ambiguity and social complexity. While we lack the empirical basis to pinpoint unique corporate management capabilities, they are likely to evolve around what Birkinshaw et al. (2005) refer to as managerial innovations and define as innovative management practices, processes, or structures that further organizational goals.

[26] We illustrate this fact with our case study of corporate management synergies at General Electric in the next section.

3.4.4 An illustrative case study of corporate management synergies

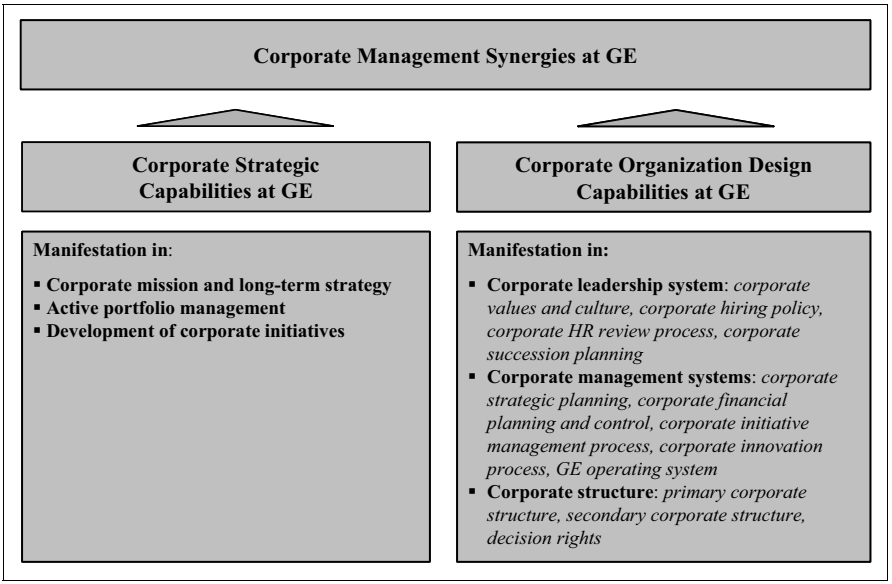
In this section, we provide an in-depth case study of General Electric to illustrate the concept of corporate management synergies. The case is based on an outside-in analysis from 1983 until 2007 and 6 interviews with company managers.[27] The elaborateness of the case at this point in the dissertation may surprise the reader. However, we believe that a thorough case is beneficial for obtaining a sound understanding of corporate management synergies as a distinctive class of cross-business synergies.

We chose the diversified MBF GE as our case company for three reasons: First, the firm is renowned for its corporate management capabilities (e.g., Goold et al. 1994; Bowman & Helfat 2001; Anand 2005; Grant 2005a). Second, GE has continuously portrayed a conglomerate surplus and its businesses have frequently outperformed their more focused rivals. Since 1979, GE as a whole has outpaced the earnings growth of the S&P 500 and the nominal Gross Domestic Product (GDP) in every consecutive year. Third, GE's businesses are largely unrelated in terms of its operations, which increases the probability that corporate management synergies generate the bulk of corporate value, and not operative synergies.

GE operates the six major businesses commercial finance, money (consumer finance), healthcare, industrial, infrastructure, and NBC Universal (broadcasting network). In 2005, GE had sales of 150,242 million US-$, a one-year sales growth of 1.7%, a net-income of 16,711 million US-$ and 316,000 employees worldwide. In the following, we will discuss how GE derives corporate management synergies from utilizing corporate organization design and corporate strategic capabilities. Figure 3-7 (on the next page) provides an overview.

[27] Please refer to appendix 3 for a list of exploratory interviews at GE.

Figure 3-7: Corporate Management Synergies at GE



Source: author

(1) Corporate Strategic Capabilities

Over time, GE has built strategic capabilities at the corporate level that can be associated with increased performance of its businesses. Theses capabilities manifest themselves in (1) the development of a corporate mission and long-term strategy, (2) active portfolio management, and (3) the formulation of corporate initiatives that cut across all businesses.

(a) Corporate mission and long-term strategy

The corporate center at GE is responsible for developing a clear corporate mission and a long-term corporate strategy and thereby provides strategic intent, identity, guidance, and continuity for its businesses.

From 1981 on, GE's mission was "(…) *to be the most competitive enterprise in the world by being No.1 or No.2 in every market* (…)" (Welch 2005a: 15). Based on this mission, which was seen as the "*galvanizing mantra*" to describe how GE "*was going to do business going forward*" (Welch 2005a: 169), a more directional long-term corporate strategy was developed. The strategy pinpointed the underlying strategic logic of GE's businesses. As Jack Welch (2005a: 170-171) explained:

> *"Our strategy was much more directional [than our mission]. GE was going to move away from businesses that were being commoditized to-*

> *wards businesses that manufactured high-value technology products or sold services instead of offerings. As part of that move we were going to massively upgrade our human resources – our people – with a relentless focus on training and development*
>
> *We chose this strategy after getting hammered by the Japanese in the 1970s. They had rapidly commoditized businesses where we had had reasonable margins, like TV sets ad room air conditioners. We ended up playing defense in a losing game … Meanwhile, overseeing GE Capital in the late '70s, I was shocked (and delighted) to see how easy it was to make money in the financial services, particularly with GE's balance sheet.*
>
> *By the time I was made CEO, I knew that GE had to get as far away as it could from any business that smelled like a commodity and get as close as possible to the other end of the spectrum. That's why we divested businesses like TV sets, small appliances, air conditioners, and a huge coal company, Utah International. It is also why we invested so heavily in GE Capital; bought RCA, which included NBC; and poured resources into developing high-technology products in our power, medical, aircraft engine, and locomotive business."*

This long-term strategy, which was based on the two clear principles 'prevent commoditization' and 'focus on a high skilled workforce', guided all of GE's major resource allocations:

> *"(…) our strategy … was based on two powerful underlying principles: commoditization is evil and people are everything. Virtually every resource allocation decision we made was based on these beliefs." (Jack Welch, from Welch 2005a: 171)*

Jeff Immelt, who took over the leadership of GE from Jack Welch in September 2001, did not change GE's long-term strategy. He announced to stay committed to "*big, fundamental high technology infrastructure industries in which GE can have an enormous competitive advantage*" (GE 2003: 9). Even during the long-lasting and drastic downturn after September 11, he emphasized the importance of continuity and sticking to this strategy: "*It's a marathon, it's not a sprint … you have to have a plan, and you have to stick with it. You have to modify it at times, but every day you've got to get out there and play it hard*" (Bryne 2005: 61).

(b) Active portfolio management

Within the boundaries of the firm's long-term strategy, GE's corporate managers support their businesses through an active portfolio management.[28] They continuously re-

[28] Besides contributing to corporate management synergies, active portfolio management has an independent effect on corporate performance, for instance, through positive performance effects from divestments. We fo-

configure the corporate portfolio to focus resources on the most profitable opportunities and thus make sure that existing businesses receive the critical mass of resources they need to compete effectively. As Jack Welch explains:

> *"My biggest challenge will be to put enough money on the right gambles and no money on the wrong ones. But I don't want to sprinkle money over everything." (Jack Welch, from Grant 2005b: 343)*

Corporate managers constantly ensure that the business portfolio addresses the requirements of a changing environment and is balanced in terms of risks and growth opportunities. After 2001, in an increasingly uncertain business environment, GE has realigned its business portfolio significantly to focus its resources on businesses, which are consistent with its long-term strategy but which are less exposed to the volatility of the economy and have long growth cycles (so-called growth engines). At the same time, corporate managers have been careful to keep the risk of the combined portfolio balanced in order to maintain the firm's AAA financial rating, which provides businesses with comparably low debt financing costs. As Jeff Immelt explained at several occasions:

> *"(...) The GE portfolio was put together for a purpose – to deliver earnings growth through every economic cycle. We're constantly managing these cycles in a business where the sum exceeds the parts (...)." (Grant 2005b: 338)*

> *"(...) we view GE businesses in two groups: Growth Engines and Cash Generators. The Growth Engines represent about 85% of GE's earnings; they can grow 15% annually through the cycles with high returns. They are market leaders with great strengths in technology, cost, services, global distribution and capital efficiency. Over the past five years, the average earnings growth of this group is 20%. Our Cash Generators represent about 15% of GE's earnings. These businesses are more cyclical, but in an expanding economy, they should have double-digit earnings growth. More important, they will have consistently strong cash flow (...)." (GE 2004: 6)*

> *"Last year, I told you that we defined GE in two groups, Growth Engines and Cash Generators. Our aspiration was to increase the Growth Engines. These are highly competitive businesses with multiple ways to grow. Since 1999, earnings growth from these businesses has averaged 15% annually. In 2005, we expect approximately 90% of GE's earnings to come from the Growth Engines ... We run this portfolio with intensity. In 2004, our cash flow from operating activities (CFOA) grew 18%, powered by a 27% expansion in industrial cash flow. CFOA growth and*

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cus our discussion here on corporate management synergies, i.e. the contribution that an active portfolio management makes to the performance of the existing/remaining businesses in the portfolio.

> *other actions helped keep our balance sheet strong and maintain our 'Triple-A' ratings ... GE is filled with "capital-efficient" and "high-intellect" businesses. In other words, we get growth without building factories and we allocate capital to maximize returns. We run these businesses with a clear focus on reducing working capital and improving return on equity." (GE 2005: 5)*

GE's active portfolio strategy involves the consequent divestment of businesses that do not fit with the long-term strategy or capability base anymore:

> *"(...) we began the disposition of a substantial portion of our insurance businesses in 2003 ... The board and I are not selling insurance businesses out of frustration at their operating performance. Insurance is simply not the right business for us in the future. It requires significant capital to grow, and it does not fully leverage GE's capabilities. We decided that Genworth will be far better off as an independent insurance business." (GE 2004: 4-6)*

Moreover, GE continuously screens the market for buying opportunities and initiates acquisitions that strengthen the competitiveness of its existing businesses or that establish new growth platforms. Examples include the acquisition of 'Telemundo' and 'Bravo Networks' to expand its NBC broadcast business to the fast-growing Hispanic advertising market or the acquisition of Enron's wind energy business as a growth platform for its power business (Bartlett 2006). Corporate managers ensure that GE's businesses are not overpaying and helps to determine the best 'pace' and 'timing' for acquisitions. For example, GE constantly and successfully takes advantages of downturns to acquire firms at moderate prices:

> *"(...) Europe looked a lot like the United States in the 1980s, and in need of the same remedies: restructuring, spin-offs, and the like. So, while many were 'writing-off' Europe, we invested heavily, buying new companies and expanding our existing presence ... 'GE Europe' is now a $20.6 billion operation. Our revenues have more than doubled from 1994 to 1997; net income has tripled to more than $1.5 billion; and growth is accelerating as the European recovery progresses" (GE 1998: 2).*

GE repeated this anti-cyclic buying behavior during other downturns, such as the Asian crises in 1997/98 and the global downturn after September 11, 2001.

In conclusion, GE's active portfolio management improves the performance of its businesses in three ways: First, it aligns corporate management capabilities with the requirements of the businesses. Second, it ensures businesses a critical mass of resources for building the necessary scale for efficient global competition and organic growth. Third, it strengthens the resource base of the businesses through well-timed and strategically meaningful acquisitions.

(c) Development of corporate initiatives

GE's active strategic involvement in its businesses is not limited to portfolio management. In order to achieve its long-term corporate strategy, GE's corporate managers continuously design common corporate initiatives, which are executed at the business-level and have long-term impact. These initiatives can be understood as corporate prescribed business strategies. They are the highest strategic common denominator for GE's businesses. For the last 25 years, GE's corporate managers have initiated a major new corporate initiative every two years to drive its businesses in a particular direction. These initiatives help GE's businesses to build specific strategic and organizational capabilities that improve their performance. While initiatives continuously update GE's capability base, the long-term strategy remains as stable as possible to provide direction:

> *"Now, in such changing times, how and why did GE stick with one strategy over twenty years? The answer is that strategies, if they're headed in the right direction and are broad enough, don't really need to change at all that often, especially if they are supplemented with fresh initiatives. To that end, over the years we have launched four programs to bolster our strategy – globalization, service add-ons, Six Sigma, and e-business." (Welch 2005a: 171)*

Over the years, GE's corporate managers have launched a number of strategic initiatives. We illustrate this approach by describing nine key strategic initiatives which GE's corporate management has initiated over the last three decades (cf. Bartlett & Wozny 1999, Grant 2005b, Bartlett 2006)[29]:

- *Globalization Initiative*: In the late 1980s, General Electric realized that it needed to expand its global reach to be 'fit for the future' and to sustain high growth rates. To encourage GE's businesses to globalize, Jack Welch raised the standard of being '#1' or '#2' by evaluating the world market position and not the home market position (as had been the case earlier) and appointed a 'head of international operations' that facilitated international acquisitions and co-operations.

  Ever since, globalization has been an ongoing effort at GE. Jeff Immelt has further increased GE's internationalization, focusing its businesses on developing countries such as China and India, but also on Russia, Eastern Europe and South America.

- *Developing leaders:* In the early 1990s, Jack Welch started an initiative to realign the skill sets and mindsets of the firm's employees with GE's long-term corporate strategy and its new organizational structure. GE developed 'Session C', an HR

[29] Please note that this is only a selection of GE's corporate initiatives to illustrate our thinking. Since 1981, GE has launched further important and successful corporate initiatives such as 'best practices', 'workout', 'boundaryless behavior', 'stretch', 'cash entitlement', and 'simplification'.

process including rigorous management appraisal, development, and succession planning reviews (Bartlett & Wozny 1999). Incentives were aligned towards more variable income schemes, leadership profiles were introduced, and management development concepts were updated.

- *Service Business*: In 1994, corporate launched a strategic initiative to drive service business in order to reduce its dependence on traditional industry products. Value-added services for GE's products (leveraging the installed base) should compensate for slowing product growth. Some rising business executives were focused on the issue, a service council was initiated, and acquisitions of service businesses were increased.

  Like globalization, increasing revenue from services is a continuing goal. A decade after Jack Welch's initiation of the initiative, services are still a cornerstone of GE's corporate strategy. As Jeff Immelt reported in his 2003 letter to stakeholders:

  > *"Technical leadership has created a massive installed base of more than 100,000 long-lived GE jet engines, power turbines, locomotives and medical devices for which we can provide high-margin services for decades. In 2003, our services revenues grew to $23 billion, up 10%. Our 'annuity stream' from services has the potential to total more than $200 billion of revenue and more than $60 billion of profits between now and 2010." (GE 2004: 7)*

- *Six Sigma:* Due to continuing problems with the quality of GE's products and processes, which came to the attention of corporate management through an employee survey, Jack Welch launched the Six Sigma Quality Initiative in 1996. The initiative was mandatory for all businesses and included the training of thousands of employees. By 1999 the initiative had been fully implemented and was exceeding expectations by generating returns of $750 million over the investment, with even increasing returns forecasted for the years to come (Bartlett & Wozny 1999).

  Immelt continued Welch's focus on ongoing quality improvement. With the introduction of 'Lean Six Sigma' in 2004, he even took it to the next level. Lean Six Sigma is a complimentary discipline to Six Sigma that applies classical tools of lean manufacturing to other functional processes to eliminate waste. One application of 'Lean Six Sigma' is to reduce cycle-times in core customer-facing business processes to increase customer satisfaction (Stewart 2006). Other uses are geared at reducing working capital and improving risk management (Bartlett 2006).

- *E-Business*: In 1999, corporate managers at General Electric sensed that the internet and e-business were changing its business dramatically. Corporate encouraged its businesses to visualize the opportunities and threats of the internet and act upon them (destroyyourbusiness.com). The initiative led to the utilization of the internet

to improve several internal and customer-facing processes.

- *At the customer, for the customer*: This initiative, formally launched in 2001, focused on building enduring customer relationships based on products, services, and GE's operational expertise to fight commoditization of GE's offerings. As Jeff Immelt proclaims:

  > *"I want GE to be essential to those whom we serve, a critical part of the profit equation, a long term partner, a friend." (GE 2003: 13)*

  At the customer, for the customer aims to help GE's customers prosper. It changed GE's sales approach towards value selling; GE now shows how its applications add value to the customer's offerings and thus help to increase business performance. The initiative brings GE's internal best practices, management tools, and training programs to its customers to help them address their challenges (Stewart 2006). For example, as a 'productivity partner', GE helped hospitals to improve their quality and lower their cost by implementing Six Sigma techniques.

- *Imagination breakthroughs:* As part of its organic growth strategy, in September 2003, GE launched the 'Imagination Breakthrough' (IB) initiative across its businesses. The initiative focuses the attention and resources of GE's top management on promising ideas for new growth opportunities (Stewart 2006). As Jeff Immelt explains:

  > *"We created imagination breakthroughs to pull some ideas out of the pile that we thought were really hard or really important and could possibly generate $100 million in new sales over a three-year horizon. Imagination breakthroughs are a protected class of ideas – safe from the budget slashers because I've blessed each one. The help makes organic growth real ... At this point there are about 100 of them, half involving brand-new products and half involving changing commercial structure. Ultimately I'd like to see the concept morph and spread into the organization so that we have 1,000 imagination breakthroughs and the focus is less on these big elephants and more on creativity throughout the businesses." (Steward 2006: 9)*

  Through breakthrough innovations, GE's businesses are expected to lead industries rather than just follow demand (Brady 2005). They are to anticipate customer needs early and deliver products before customers ask for them.

  Under the IB approach, business and corporate-level review processes 'combine discipline and creativity' to generate new products and processes that drive profitable growth (GE CF 2007). The disciplined review processes stimulate new ideas, select promising ones that are in line with business unit goals and customer needs, and ensure appropriate human and capital resources for these projects.

As Glenn Thomas, managing director of Strategic Marketing at GE Commercial Finance, explains:

> *"Under the IB initiative, we're encouraged to think out of the box, but we also have to rigorously defend each proposal. It's a balance between the creative process and the fiscal one, and it encourages participants to ask the right questions and take the right actions ... Imagination Breakthrough (IB) is an ongoing framework that enables GE Commercial Finance and other GE units to make more effective use of our knowledge and experience in order to meet customer needs in creative ways ... The disciplined nature of the IBs offers both marketing and financial metrics, giving us an holistic view of a project's strong points and vulnerabilities at different stages. This enables GE to take big swings while still limiting our exposure by making informed judgments early in the capital commitment process ...The Imagination Breakthrough process spurs GE's ability to meet customer needs in an ever-expanding variety of ways ... the information we gain from each project review expands our base of knowledge and helps us to calibrate subsequent efforts." (GE Commercial Finance 2007: 1-2)*

Even though a disciplined process aims to select 'successful' growth projects, risk taking is encouraged. GE takes a portfolio approach to imagination breakthroughs to enhance variety and anticipate failure. As Jeff Immelt explains in his letter to shareholders: *"Today, we have 80 Imagination Breakthroughs ... Some will happen this year and others may take 10 years to reach full commercialization. Some just may not fly"* (GE 2005a: 9).

- *Ecomagination:* In 2004, GE's corporate managers sensed the increasing global demand for 'green' products (energy-efficient and less emissive products) due to rising 'economics of scarcity' (Stewart 2006). Ever since, GE has been pushing its businesses to exploit this growth opportunity under the common label 'Ecomagination'.

> *"Ecomagination is a business strategy to help meet customers' demand for more energy-efficient, less emissive products and to drive growth for GE .... Ecomagination puts into practice GE's belief that financial and environmental performance can be integrated to accelerate profitable growth for the Company, while taking on some of the world's biggest challenges. In concert with customers, governments and non-governmental organizations, GE is working to help solve these challenges and to grow our company." (GE 2006a: 1)*

Moreover, Ecomagination is an integrated marketing campaign across several GE businesses to promote GE's green image and support product sales.

- *One GE:* The purpose of the One GE initiative, which was initiated in late 2002, is a systematic cross-business sales approach to bring products from different GE

businesses to common customers (enterprise selling). The focus is on a couple of big events like the Olympics and some vertical industries (Stewart 2006).

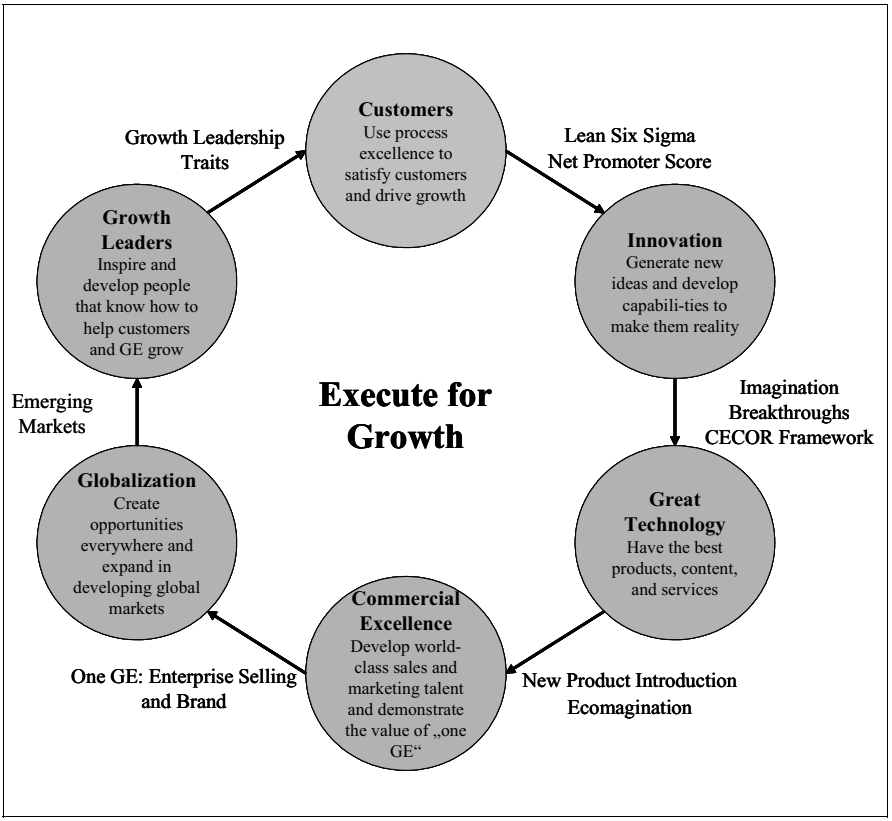
One GE involves the delivery of integrated infrastructure solutions to rapidly developing countries with the mission to become a 'one-stop shop' for developing countries (NYT 2005). To achieve this objective, Jeff Immelt formed vertical cross-business teams in Healthcare, Energy, Water, and Rail that focused on company-to-country relationships in developing countries (GE 2004, 2005). Furthermore, he reorganized its aircraft engines, rail products, water energy, oil and gas, and some financial services businesses into a new 'GE Infrastructure' unit under common leadership.

The newly launched and re-energized initiatives under Jeff Immelt illustrate GE's corporate driven business strategy approach well. Through his binding corporate initiatives, he re-focuses GE's business-level strategies to emphasize organic growth. As Mr. Immelt explained: "*[GE will be] very much more externally focused and focused on the customer. People inside the company are already seeing more investments in technology, more investments in service, more globalization, a higher-tech company"* (GE 2004: 4). With these mid-term strategic thrusts – technical leadership, services, customer focus, and globalization – Immelt plans to increase GE's traditional organic growth rate from 5% to 8% (GE 2005b)[30].

If corporate initiatives gravitate towards central strategic themes, such as organic growth, corporate managers integrate the strategic initiatives into consistent frameworks to provide orientation for business-level managers (see figure 3-8 on the next page).

[30] According to Immelt, **technical leadership** produces high margin products, wins competitive battles, and creates new markets. It grows GE's installed base, which provides new service opportunities. **Services** leverage GE's massive installed base of more than 100,000 long-lived GE jet engines, power turbines, locomotives and medical devices. **Customer focus** ensures efficient addressing of customers needs. **Globalization** increases growth by multiplying ideas and offerings across regions. Immelt predicts that developing countries will account for 60% of the company's growth in the next 10 years vs. about 20% for the past decade (Brady 2005).

Figure 3-8: GE Organic Growth Framework



Source: Stewart (2006); GE (2005d); Interview (E27)

In conclusion, through the initiation of a consistent set of corporate initiatives, corporate managers add value to GE's businesses in three ways:

First, corporate managers push GE's businesses to address major strategic challenges early on in a structured manner. Due to relentless environmental analysis, internal and external benchmarking and their remarkable business acumen and strategic foresight, GE's corporate managers often sense the importance of major management issues such as globalization, process and quality improvement, service businesses, innovation, and 'ecological products' at an early stage. By mobilizing their businesses to confront reality and address these challenges, they provide them strategic advantages and support their profitable growth. In the past, GE's businesses were already prepared for the challenges ahead while competitors such as ABB and Siemens were still inactive. As Jeff Immelt puts it: *"A key GE strength is our ability to conceptualize the future, to identify*

unstoppable trends, and to develop new ways to grow (...)" (GE 2004: 9).

Second, corporate managers help GE's businesses to balance efficiency and growth. While 'workout', 'six sigma' – and other corporate initiatives not explicitly described here – improved businesses level capabilities to enhance productivity, initiatives such as 'at the customer, for the customer', 'imagination breakthroughs', and 'ecomagination' advanced growth capabilities. The initiatives yielded complementary productivity and growth 'tools' that help GE's businesses to achieve profitable long-term growth.

Third, corporate managers facilitate strategic sense-making and provide orientation by integrating initiatives into consistent strategic frameworks (such as the 'execute for growth framework' presented in figure 3-9). This enhances the ability of GE's businesses to formulate and execute their specific business strategies within this frame.

Conclusion: Business-level advantages from corporate strategic capabilities

In conclusion, GE's corporate strategic capabilities provide multiple advantages for its businesses:

- *Direction and orientation*: Through a carefully designed mission and corporate strategy, which are applicable to all of GE's businesses, corporate managers provide strategic intent, direction and long-term orientation.
- *Strong resource base and growth opportunities*: Through an active portfolio management approach, GE ensures its businesses a solid resource base and opens up future growth opportunities.
- *Strategic and organizational readiness*: By anticipating competitive requirements early on ('conceptualizing the future') and facilitating change through strategic initiatives, corporate managers improve the strategic positioning and organizational capabilities of GE's businesses.

(2) Corporate Organization design capabilities

In addition to its strategic capabilities, GE possesses corporate organization design capabilities that increase the performance of its businesses. GE's organization design capabilities manifest themselves in the design of (1) corporate leadership systems, (2) corporate management systems, and (3) corporate structure.

(a) Corporate leadership systems

As an explicit part of its long-term corporate strategy, General Electric has continuously focused on developing its corporate-wide leadership capability. Throughout his tenure at GE, Jack Welch sought to improve people-related issues. As he points out:

> *"Obviously, as a CEO [of General Electric], I got involved in everything: strategy, new products, sales, M&A, and the like. But in the job, I*

> *always believed the people part was how I could help GE the most." (Welch 2005a: 97)*

Welch viewed 'leadership' as GE's most important corporate competence and the essence of management:

> *"Our true 'core competency' today is not manufacturing or services, but the global recruitment and nurturing of the world's best people and the cultivation in them of an insatiable desire to learn, to stretch and to do things better every day. By finding, challenging and rewarding these people, by freeing them from bureaucracy, by giving them all the resources they need ... we have seen them make us better and better every year." (GE 2001: 2)*

> *"Well-managed companies ... make sure managers spend at least 50 percent of their people time on their biggest constituency, evaluating and coaching them." (Welch 2005a: 113)*

Consequently, since 1981, many corporate initiatives have focused on leadership development. These initiatives have been greatly beneficial for GE's businesses as they have provided them with a continuous stream of skilled and motivated managers at all levels. These business leaders have ensured that GE's operations are profitable and growing. Jeff Immelt is continuing this focus on leadership. He spends at least 40 percent of his time on people issues, including participating full-time annually in GE's yearly review of all employees (Sosbe 2004).

We proceed with a discussion of the leadership system that corporate managers established to increase the performance of GE's businesses. The system consists of the following elements: (1) corporate values, (2) corporate hiring policy, (3) corporate HR review process, (4) corporate succession planning, (5) corporate leadership development, and (6) a dedicated leadership structure.

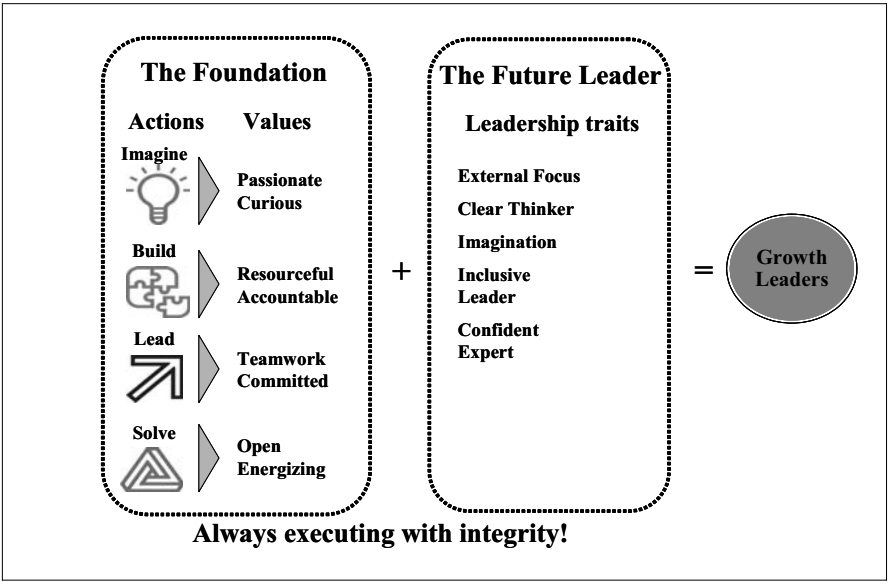
Corporate values and culture: Corporate managers established corporate values as the foundation of GE's leadership development. They articulate the culture and character of the organization and set a common standard for how all employees should operate as they accomplish their goals and responsibilities. GE frequently reflects on its culture and ensures that its culture supports its strategy.

During his tenure from 1981 - 2001 Welch created a high-performance learning culture focused on productivity, execution, and integrity. He established fundamental values of meritocracy, dignity, speed, simplicity, openness, diversity, and 'hatred for bureaucracy' at GE (Welch 2005a). Immelt aims to preserve the values instilled by Welch, especially GE's execution focus, but also takes actions to change GE's culture to become more innovative. He encourages GE's managers to be more creative and to take risks and make bold moves (Brady 2005). As Immelt puts it: "*You are not going to stick*

around this place and take no bets" (Brady 2005: 3).

GE integrates its values into a consistent framework, which is based on 'integrity'. GE demands that all employees act with integrity at all times and enforces that policy. The framework consists of four basic actions, eight values, and five future leadership traits (see figure 3-9).

Figure 3-9: GE's corporate value framework



Source: Interviews (E30); GE (2007a)

The actions and values are the foundation of the GE culture. The *basic actions* 'imagine', 'solve', 'build', and 'lead' drive performance (see figure 3-10 on the next page). GE communicates its actions as follows: "*Imagine, solve, build and lead – four bold verbs that express what it is to be part of GE. Their action-oriented nature says something about who we are – and should serve to energize ourselves and our teams around leading change and driving performance"* (GE 2007a).

Figure 3-10: Description of GE's basic actions

Action	Description
Imagine	"We put imagination to work for our customers, people and communities" "Imagine is a sense of possibility that allows for a freedom beyond mere invention. Imagine dares to be something greater … At GE, Imagine is an invitation to dream and do things that you didn't know you could do."
Solve	"We help solve some of the world's toughest problems" "Every business has to have a reason to exist - a reason that answers the fundamental question of 'why are we here?' … For GE, the big question has a simple answer: We exist to solve problems …"
Build	"We are a performance culture that builds markets, people and shareholder value." "From 0 to 60 in six seconds? Try zero to $5 billion in five years … It's not so much a vision for our future - where we're headed is in many ways a reflection of where we've already been. It's not a destination. It's a quest. A quest for growth. And when we look to the future, we know that for us, there's only one way to get there. Build."
Lead	"We are a meritocracy that leads through learning, inclusiveness and change." "Imagine. Solve. Build. Each of these is merely a word without one vital element. Lead. … GE is already synonymous with leadership. But with this mantle comes responsibility. And it's not just a responsibility to maintain the status quo or manage what worked yesterday. It's the bigger responsibility to change … Because change is the essence of what it means to lead … It's a call to action that engages our unceasing curiosity, our passion, and our drive to be first in everything that we do."

Sources: Interview (E30), GE 2004, 2007a

As an illustration of GE's values, Jeff Immelt describes the case of Jim Campbell, the leader of GE's Consumer Products business in 2003:

> *" In 2003, we asked Jim to grow earnings by double digits, generate $ 1 billion in cash, restore GE as a clear leader in innovation, rebuild relationships with our customers, reduce structural cost by integrating Lighting with Appliances and persuade his production associates to ratify a new contract. He hit them all ... Jim had to* ***imagine*** *new approaches for innovative products in an old industry. He had to* ***solve*** *real problems in our Lighting business, where we have underperformed. He had to* ***build*** *new relationships with customers like ... Wal-Mart. He had to* ***lead*** *in a difficult market ... one in which tough actions like restructuring were required to fund growth" (GE 2004: 10).*

The *values* describe how the action-oriented qualities are performed at GE. They represent GE and its common set of beliefs about how to work: 'passionate', 'curious', 're-

sourceful', 'accountable', 'teamwork', 'committed', 'open', and 'energizing'. The values are operationalized through specific assessment criteria, which are used to guide leadership development (see figure 3-11). For instance, the value 'passionate' is assessed through the following criteria: 'demonstrates enthusiasm for what he/she does', 'willing to take risks', 'empowers other to question the status quo', 'creates excitement', and 'inspires others to deliver'.

Figure 3-11: Operationalization of GE's values

Value	**Description/Assessment Criteria**
Curious	▪ Generates new and creative ideas ▪ Fosters an environment where questions and ideas are valued ▪ Seeks feedback, continuously learns, and develops self ▪ Learns as much or more from failures as successes
Passionate	▪ Demonstrates enthusiasm for what he/she does ▪ Willing to take risks ▪ Empowers others to question the status quo ▪ Creates excitement and inspires others to deliver
Resourceful	▪ Seeks simple solutions to complex problems ▪ Considers varied alternatives before selecting a solution ▪ Effectively uses internal/external network ▪ Consistently gets tasks accomplished with available resources
Accountable	▪ Takes responsibility for decisions, actions and results ▪ Delivers on commitments to stakeholders ▪ Does what is best for the team and the customer ▪ Places success of the organization ahead of personal gain
Teamwork	▪ Builds trust by respecting the ideas and contributions of everyone ▪ Works well with others ▪ Coaches and encourages others on a regular basis ▪ Contributes to positive morale and spirit within the team ▪ Embraces diverse and global cultures
Committed	▪ Sets clear and measurable goals ▪ Stays focused on business priorities ▪ Willing to make tough decisions and live with the consequences ▪ Displays persistence and tenacity; is not deterred by obstacles
Open	▪ Attentive and respectful when listening and responding to others ▪ Willing to change based on the inputs of others ▪ Communicates in an open, candid, and consistent manner ▪ Accessible and approachable
Energizing	▪ Displays an engaging, can-do, optimistic attitude ▪ Makes work fun ▪ Inspires others to achieve more than they imagined ▪ Recognizes and rewards the contributions of others

Sources: Interviews (E30); GE 2006f

Corporate managers under Jeff Immelt have introduced specific *leadership traits* to support the new organic growth strategy. They describe how GE's values are supposed to evolve in the future to drive innovation and organic growth. Going forward, GE leaders should (GE 2005a):

- Create an *external focus* that defines success in market terms,
- be *clear thinkers* who can simplify strategy into specific actions, make decisions, and communicate priorities,
- have the *imagination* and courage to take risks on people and ideas,
- energize teams through *inclusiveness* and connection with people, building loyalty and commitment, and
- develop *expertise* in a function or domain, using depth as a source of confidence to drive change.

The leadership traits are designed to update GE's culture by changing the minds and behavior of GE's leaders. While firm values and integrity are the foundation of GE's leadership development, the leadership traits are the differentiator (GE 2005c). Like values, the leadership traits are operationalized to guide leadership development (see figure 3-12 on the next page). Furthermore, they are nurtured on a day-to-day basis through ongoing 'growth dialogues'. As Harry Elsinga, Manager of Executive Development at GE explains:

> *"You can only make it work [leadership traits] if you tie it to the business, and it has to be a part of the business model. These traits have to be real in your job today. So what we do is we drive initiatives in the organization where people have a dialogue about these things – we call them growth dialogues – for example, let's say you're working in HR in Europe or in a call center in Japan or in real estate in New York City, we say everybody should have a discussion with their team and leaders such as how does imagination look for us? How do we define imagination?" (Knudson 2006)*

Figure 3-12: Operationalization of leadership traits

External Focus	Clear Thinker	Imagination	Inclusive Leader	Expertise
Creates an external Focus that defines success in market terms ▪ Considers the external impact of business activities and decisions ▪ Anticipates customer needs and ensures that they are met ▪ Takes an active role in shaping their industry ▪ Takes action to enhance GE's reputation	**Is a clear thinker who can simplify strategy into specific actions** ▪ Has strategic capacity to sift through complex information ▪ Communicates messages clearly and concisely ▪ Decisive...able to make decisions with speed and accuracy ▪ Drives accountability for organic growth	**Has imagination and courage to take risks on people and ideas** ▪ Generates new and unique ideas ▪ Creates an environment in which people can take risks ▪ Brings the creative ideas of others to market ▪ Viewed as an innovation zealot	**Can energize teams through inclusive-ness and con-nection with people** ▪ Flexible in approach to motivate and retain ▪ Builds a connection to the workforce through personal involvement ▪ Promotes an environment that recognizes and celebrates differences ▪ Develops others	**Develops expertise in a function or domain** ▪ Stays in job long enough to see the impact of decisions ▪ Demonstrates leadership throughout different business cycles ▪ Gains perspective through varied experiences ▪ Has the depth to impact change

Source: Interview (E30), GE 2006f

GE's strong corporate culture – which is closely aligned with its strategy – is the foundation of its leadership development. GE strongly believes that its leaders across businesses drive a common culture. Thus, the values and leadership traits describe a substantial part of the objective function for GE's leaders ('this is how we want leaders to work around here').

Over time, GE has built an execution- and growth-oriented corporate culture. This culture is beneficial for all of GE's businesses as they all face similar generic organizational and strategic challenges (such as growth, change and reliable execution) and follow the same overarching corporate strategy. Thus, GE's corporate culture supports its businesses in attaining their short-term operational and long-term strategic goals.

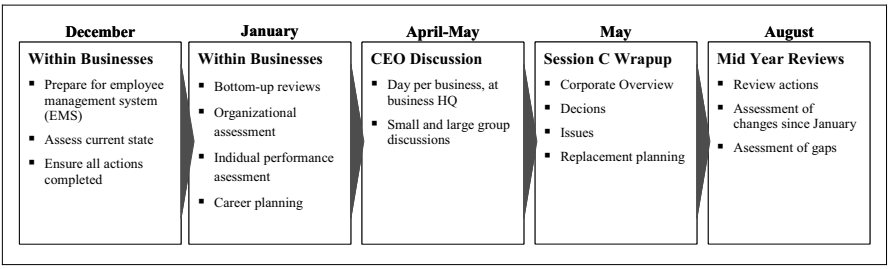
Corporate hiring policy: An integral part of GE's leadership system is its corporate hiring policy. Under Jack Welch, corporate managers modified GE's hiring policy to ensure that only people were hired that fit with GE's vision and cultural norms. GE dedicates a considerable amount of resources to identify these people. The same hiring policies are mandatory for all businesses.

As a basic quality, GE requires its potential employees to be honest, intelligent, and emotionally mature. Furthermore, they need to portray attributes that fit with GE's values – passionate, curious, resourceful, accountable, teamwork, committed, open, energizing[31]. Through elaborate behavioral interviewing techniques, GE aims to select those employees that have the required business skills and cultural beliefs. Therefore, while business skills are necessary, they are not sufficient to be hired at GE.

[31] All these attributes can be summarized in what GE calls core leadership skills: 'ability to learn', 'ability to energize and excite', and 'ability to give back to employees and externally' (cf. GE 2005g).

Corporate HR review process: Once hired, GE's employees are continuously evaluated through a dedicated, transparent, and rigorous human resources review process termed 'Session C' (see figure 3-13). The HR review process is one of GE's core management processes and ensures sophisticated succession planning for key management positions at the corporate and business level. The process has been designed by corporate managers and is mandatory for all of GE's businesses.

Figure 3-13: Corporate HR review process 'Session C'



Source: GE 2005b

The process focuses on the needs of both the individual employee and the company. It begins with employees' self-assessments of their own accomplishments, strengths, development needs, and career aspirations, followed by an assessment by their managers. The employee and manager enter their assessments in a computerized tool, the employee management system, which facilitates a 'one-over-one' review. This review and interpretation of the valuation at a higher management level ensures fairness and accuracy. Results are then rolled up at the business leader level, where assessment, succession planning and developmental needs are discussed and action plans are put in place to support organizational and key business initiatives. Corporate managers and the CEO are significantly involved in the process. The review is complemented with a 360° feedback process. Employees are evaluated by their manager, peers, and all subordinates along a five-point scale regarding issues such as teambuilding and vision. The 360° feedback process increased accuracy of evaluations and was useful in detecting those that "*smile up and kick down*" (Welch in Bartlett & Wozny 1999: 8).

The objective and benefit of the strict HR review process is to select, develop, motivate, and retain GE's leaders worldwide. Employee evaluations do not only consider contribution to business performance and leadership traits[32] but also focus on adherence to corporate values to align leaders with GE's vision and cultural norms. While managers that score high on the value-dimension and comparably low on the perform-

[32] Managers are rated as green, yellow, or red on all five growth leadership traits. As a rule, everyone has to have one red to improve. As Jeff Immelt explains, "the point is not to pick out winners and losers [with growth traits] – it's to say everybody has got to work on something" (Stewart 2006:8).

ance-dimension are usually given a chance to improve, managers that do not live by the values run a high risk of being let go. As Jack Welch explained in GE's 1989 annual report :

> *"In our view leaders, whether on the shop floor or at the top of our businesses, can be characterized in at least four ways. The first is one who delivers on commitments – financial or otherwise – and shares the values of our company. His or her future is an easy call. Onward and upward. The second type of leader is one who does not meet commitments and does not share our values. Not as pleasant a call, but equally easy. The third is one who misses commitments but shares the values. He or she usually gets a second chance, preferably in a different environment. Then, there's the fourth type – the most difficult for many of us to deal with. That leader delivers on commitments, makes all the numbers, but doesn't share the values we must have. This is the individual who typically forces performance out of people rather than inspires it: the autocrat, the big shot, the tyrant. Too often all of us have looked the other way and tolerated these 'Type 4' managers because 'they always deliver' – at least in the short term ... [At GE] people are removed for having the wrong value. We don't even talk about the numbers." (GE Annual Report 1989 from Bartlett & Wozny 1999: 8)*

Managers at GE give their employees face-to-face feedback on their performance during multiple meetings over the year; reviewing at GE is not a 'once a year event'. As Harry Elsinga, manager of Executive Development at GE, explains:

> *"There's a school of thought that believes you can have an appraisal once a year and talk about everything in one conversation to get it done for the year. That's a school of thought that we do not apply in GE. We think that you should have multiple opportunities throughout the year to sit down with the employee to talk about career, performance or particular opportunities or issues that arise. The most important thing is that people feel encouraged to continue to perform. At the end of the day, it's all about whether you have those conversations with the employee. I think the most important thing is we tell people on a regular basis, we think you're doing great, you delivered this to the business and by the way, here are the one or two things that we'd like to see more of" (Knudson 2006).*

To establish a high performance culture, GE's performance appraisal system was intensified through forced ranking in the late 1990s. Every manager was required to rank his or her employees into one of three categories based on his or her long-term performance – the top 20% ('A players'), the high performance 70% ('B players'), and the bottom 10% ('C players').[33] The 'As' scored high on all target-leadership traits.

[33] This distribution of performance was referred to within GE as the 'vitality curve'.

They were the people with passion, committed to making things happen, open to ideas from anywhere, with the ability to energize not only themselves, but everyone who comes in contact with them. They make business productive and fun at the same time. The 'Bs' did not achieve such high performance levels; usually it was their 'passion' that separated them from the 'As'. Jack Welch saw the Bs at the heart of the company and vital to its operational success. It was the job of managers to help the 'Bs' to become 'As'. The 'Cs' don't get the job done; they "*are likely to enervate rather than energize. They procrastinate rather than deliver. You can't waste time on them, except to redeploy them elsewhere*" (Welch 2005b). Consequently, while A and B players were rewarded with salary increases, stock options and promotions, Cs received nothing and, after a warning, were counseled out. Immelt continued forced ranking. However, it has been observed that assessment has become more flexible and subjective under Jeff Immelt, probably to encourage risk taking and increase innovation (Bradey 2005).

Corporate succession planning: GE puts a high emphasis on succession planning and ties it directly to its HR review process. As Harry Elsinga elucidates:

> *"Succession planning is very important and I think it should be a big item for every organization. You always want to build capability in your organization. People love to be recognized for good performance and there isn't a better way to tie someone's good performance than identifying that a person could be a player for role X, Y or Z. We really like to engage in succession planning in GE and do it on an ongoing basis. It's an ongoing dialogue not only at the highest level of the organization but at most of our professional positions in the company." (Knudson 2006)*

For all major management positions, General Electric has named 'back-ups' with readiness assessments (categories: ready in < 6 month, ready in 12-24 months, and ready in 3-5 years). This permits GE to announce successors the same day leave notifications are delivered and ensures consistently high operational performance at the business level. As Jack Welch recounts:

> *"One morning in the summer of 2001, just as Jeff Immelt was about to take over as CEO, Larry Johnston, who was our CEO of our appliances business, came to headquarters to tell us he was taking the job as CEO of Albertsons ... Larry was a big presence in GE, with a strong track record and great reputation. Even though the announcement of his departure knocked the wind out of us, we moved quickly. By four o'clock that afternoon, we appointed Jim Campbell, the sales manager in appliances, to the job" (Welch 2005a: 111).*

General Electric regularly presents its 'talent pipeline' for its top 250 positions at investor relations events.

One of GE's advantages in succession planning is its ability to draw from a large global pool of talented managers across businesses. To make sure that this advantage is not eroded by business unit egoism, GE includes a negative value variable in its performance appraisals for managers who hold back talent.

Leadership development: The results from 'Session C' evaluations are used to derive training needs and coaching opportunities and are the basis for career planning. Managers are developed according to leadership traits, pre-defined skill profiles, and career paths consistent with current corporate and business strategies.

To guide its leadership development, GE has defined clear *executive leadership levels,* which are referred to as 'leadership bands' (cf. GE 2005g). GE has defined four leadership bands. The fourth level and foundation is the executive band, which forms the 'pipeline' for GE's remaining leadership bands (4,300 leaders in May 2005). The third level is the senior executive band, from which GE sources the leaders for its large businesses and functions (435 leaders in May 2005). The second level is the vice president band, from which GE draws the leaders for its mid-sized organizations with revenues from one to five billion US$ (157 leaders in May 2005). The highest level is the senior vice-president level, from which GE selects the leaders for its big organizations with over five billion US$ in revenues (22 leaders in May 2005). For each of these four leadership levels, GE has defined overarching organizational tasks which determine their development goals. While the leaders in the executive band are supposed to portray and disseminate GE's core leadership skills, the leaders in the senior executive band are expected to excel at driving change. The members of the vice-president band need to have the ability to conceptualize change and GE's senior vice-presidents are required to have the skills to evolve and strengthen the company culture.

Leadership development at GE is a combination of formal and informal learning. It comprises various learning opportunities ranging from training, mentoring, coaching, role models, and on-the-job experience. GE expects senior leaders to develop the next-generation leaders within their own businesses and regions. On-the-job experience is especially important in this regard. As Mr. Corcoran, GE's chief learning officer, states: *"GE's training works because of a thousand different things, most of which have nothing to do with training. At the best, studies show that only 10 percent of leadership development is training, 20 per cent comes from mentoring, coaching and role models, and 70 percent from on-the-job experience."* (Brückner 2004 from Dutta & Chaturvedi 2005: 10). To foster on-the-job experience, GE rotates its managers across businesses and countries and gives them profit and loss responsibility for small units. Especially the large number of autonomous units have helped GE to develop its leaders. As Noel Tichy, a professor at the University of Michigan who has helped GE design its leadership development, explains: *"If you were the old IBM or Ford or GM or Exxon, you didn't run a true profit and loss until you were way up in your career … At*

GE you have all these farm leagues where you can test people" (Kratz 2005: 1). Job rotation forms well-rounded managers that have acquired knowledge in different industries and market cycles and can work across internal boundaries (termed 'horizontal leadership' at GE).

GE constantly aligns career paths with its corporate strategy. While job rotation still is an important part of leadership development, managers are now rotated between jobs at a slower pace to foster organic growth. GE believes that managers require longer job assignments to acquire domain experience and technical understanding, build customer relationships, and learn how to grow businesses. As Jeff Immelt explains:

> *"Historically we have been known as a company that developed professional managers. These are broad problem solvers with experience in multiple businesses and functions. However, I wanted to raise a generation of growth leaders – people with market depth, customer touch, and technical understanding. This change emphasizes depth. We are expecting people to spend more time in a business or a job. We think this will help leaders develop 'market instincts' so important for growth, and the competence to grow global businesses." (GE 2004: 9)*

> *"(...) we are changing the GE culture by changing career expectations ... We owe it to our talent to teach them how to lead and grow businesses. This requires knowledge and time. In each business, we are creating 20 to 30 'pillar' jobs. These are key customer-facing or change-oriented assignments where the duration should be at least four to five years. With this time horizon, a leader can make his or her own bets and live with the consequences ... If you want to run a business in GE in the future, you will have done a pillar job. (GE 2005: 9)*

Although training is only a part of GE's leadership development, it is given a high priority. In 2005, GE invested US$ 1 billion in its global training activities (GE 2006a) and invested over 38 million in the reimbursement of tuition fees for employees who enrolled in outside degree programs (Dutta & Chaturvedi 2005). Training is seen as an important way to motivate and retain key employees. As Jack Welch elucidates:

> *"(...) another key way to motivate and retain is through training. If you have hired the right people, they will want to grow. They will be bursting with the desire to learn and do more ... A good manufacturing engineer will want to travel to Japan to visit companies using advanced techniques that he has only read about ... A company that manages people well helps make this happen. If it can afford it, it has in-house training led by its own executives, who serve not only as teachers but as role models" (Welch 2005a: 108).*

GE has a number of different business-level training programs, many of which are taught through an innovative mix of e-learning and on-site lecturing. However, two

unique cornerstones of GE's training approach are its 'corporate university' and its 'corporate leadership programs':

- *Corporate University:* GE's high-potential individuals – the A players – are educated in special courses at the 'Jack F. Welch Leadership Development Center' in Crotonville, NY. During the 'Session C' review process, GE managers nominate those employees that have achieved a certain career milestone or have displayed a great deal of potential. It thus is also a reward for their hard work. As Bob Corcoran, GE's chief learning officer remarks: "*For most people coming to Crotonville is a huge event. It is recognition of their hard work and their potential for the future"* (Murray 2004: 14).

  At Crotonville, managers at all levels are trained in leadership, strategic, and organization design issues. In addition to various lessons, the center runs three major management development courses (Welch 2001): The executive development course for the highest potential managers (50 participants p.a.), the business management course for midlevel managers (180 participants p.a.), and the management development course for fast-trackers early in their careers (500-600 participants p.a.). The intensive courses have a duration of three weeks and require a commitment of 50 hours per week or more (Dutta & Chaturvedi 2005).

  The learning topics of courses are aligned with corporate strategy and current corporate initiatives. In its quarterly meetings, GE's corporate executive counsel gives specific recommendations for the content of the leadership courses. In addition, the leadership development center surveys GE's leaders around the world to build a curriculum that addresses future business needs and the requirements of future leaders. For instance, under Jeff Immelt, managers are increasingly studying future technology, corporate social responsibility, system dynamics, and long-range planning (Kleiner 2004). The objective of their learning curriculum is to increase organic growth by enabling managers at many levels to make strategic judgments and bets on bold new projects (imagination breakthroughs) that would have been made by only the most senior managers in the past (Kleiner 2004).

  Mainly, GE managers, complemented by specialists and professors from reputable universities, teach the classes at Crotonville. There are frequent visits from top company management. For instance, Jeff Immelt drops in on the center about three times a month to lecture and mingle with employees (Knight 2006).[34] At the core of most GE courses is the action learning concept – the purpose is 'action', participants should be equipped with the skills and techniques necessary to apply knowledge in ambiguous situations to make critical decisions. Course participants are

[34] Jeff Immelt has a fixed teaching slot towards the end of the management development course. Thus, GE's CEO teaches every participant of the management development course at least once.

asked to assume the role of the CEO and work on real-time business issues that GE's businesses are facing.[35] During the action-oriented training sessions, students are acting as management consultants and give advice to top management without inhibition[36]. Top managers are frequently present at courses and recommendations made by participants are often implemented. As Rob Philips, former vice-president of training at GE Capital Solutions, explains: "*[Top managers] are looking for talent, trying to see if someone has a brilliant idea we should be using*" (Knight 2006: 20). The implementation of GE's new customer-centric measures, for instance, was a result of a benchmarking project conducted by participants of the management development course (Stewart 2006). Furthermore, top managers use Crotonville as a staging and testing ground for new concepts and initiatives. Jeff Immelt used the management development course to assess whether its new 'execute for growth framework' was thought out well enough or rather frustrates people (Stewart 2006).

On popular demand, GE opened its leadership center for selected customers free of charge. Typically, senior managers of the customer company bring particular projects or businesses issues and are guided through the problem by GE's instructors through workshops, discussions, and other exercises. In 2005, about 200 customers participated in such classes (Knight 2006). Customer sessions at Crotonville help strengthen customer relationships but often also provide valuable insights for GE. As Rob Philips states:

> *"Customers are like sponges, they just soak this stuff up … It doesn't matter if you're making money or making widgets, companies across the board all have the same problems. Our job is to come up with solutions. There are basic processes that seem to work … [But] we don't have the answers for everything. There are many instances where we're scribbling madly as customers are talking." (Knight 2006: 20)*

In summary, participants of leadership programs at Crotonville tackle new business problems from around the world and share knowledge with customers, suppliers and business colleagues. The leadership development center creates, identifies, and transfers valuable strategic and operational knowledge across GE's businesses and thus increases their competitiveness. Due to its alignment with corporate strategies, Crotonville increases the understanding of and buy-in for new corporate initiatives and acts as an agent of cultural change. In courses, key leaders engage in intense discussions of business issues around new initiatives such as 'Six Sigma' or 'Imagination Breakthroughs' and then apply what they have learned to advance their businesses. For that reason, GE's leadership center is frequently described as a

[35] These are concrete business issues which GE is facing at the time of the course.

[36] Answers to tough questions are not in the instructor's head but are developed on the spot by the course participants.

'staging ground for corporate revolutions'.

- *Corporate Leadership Programs:* GE established corporate leadership programs for key business functions such as 'information technology', 'finance', and 'engineering'. These programs are designed, funded, owned, and maintained by 'corporate'. The programs train recent college graduates and experienced hires in functional and leadership skills with the objective to develop them for top positions at the end of the program. Programs include worldwide project assignments across businesses and provide program members with a corporate perspective and opportunities to form global networks with their peers. Figure 3-14 gives an example.

Figure 3-14: Corporate Leadership Programs at General Electric

Corporate Leadership Programs at General Electric

GE's Corporate Entry-Level Leadership Programs combine responsible and important job assignments along with formal classroom studies. The rotational assignments cut across different aspects of a GE business, providing you with broad and valuable experience in a relatively short amount of time.

Example: Information Management Leadership Program

The program develops strong technical and project management skills through coursework and meaningful assignments. Designed to put information management careers on the fast track, program graduates are in tremendous demand throughout GE.

Program Summary

- A two-year program consisting of four six-month rotational assignments through different areas of a GE business
- On-the-job training in business dynamics, career strategies, communication skills, problem solving, decision making and project leadership
- Formal coursework in advanced information technology and systems, and their strategic application within GE
- Develops strong technical foundation, project management skills and process knowledge that cuts across functions to support GE's boundless culture

Candidate Criteria

- Strong interest in information technology applications
- Solid analytical abilities and sharp business acumen
- Bachelor's degree in Computer Science, Information Systems or Computer Engineering preferred; Business degree or other related experience may be applicable

Source: GE (2007b)

The objective of corporate leadership programs is to ensure a constant internal supply of skilled, motivated, and well-connected employees with a corporate mindset for key functions across GE's businesses. Graduates from corporate leadership programs form high-potential pools of prospective leaders. Most of GE's top managers

have attended corporate leadership programs. Furthermore, the programs help to sustain GE's high-performance culture. As a GE executive development manager asserts:

> *"We run leadership programs that run for two years ... that bond people as a team together to their function and they also bond them to GE ... Not only does a leadership program build a strong network but it gives us great leverage in terms of knowledge and building capability and talent for the future." (Knudson 2006)*

Corporate leadership programs are aligned with GE's corporate strategy. If changing strategies require new functional skills, existing programs are adjusted or new programs are initiated. For example, in his quest to transform GE into a more customer-centric company, Jeff Immelt initiated a 'commercial leadership program' to strengthen GE's functional sales and marketing capability:

> *"As part of our strategy to achieve commercial excellence and drive organic growth, we are developing a pipeline of strong marketing and sales leaders at GE through the Commercial Leadership Program (CLP). CLP offers a core curriculum that fosters the development of commercial skills and techniques that are critical to success in all GE businesses." (GE 2007b)*

As of 2006, 200 people were graduating annually from the commercial leadership program (Stewart 2006).

Organizational catalysts: A couple of organizational factors are catalysts for GE's corporate leadership capability: a strong role of HR, flat hierarchies, a partnership-like top management model, and differentiated leadership roles.

- *Strong role of HR:* To foster the continuous development of corporate leadership skills, corporate managers strengthened the position of HR throughout the company. Jack Welch regards HR as one of the most important positions at GE (Welch 2005a: 99-100):

  > *"Without doubt, the head of HR should be the second most important person in any organization ... From the point of view of the CEO, the director of HR should be at least equal to the CFO ... ", Welch asserts and recommends "... elevate HR to a position of power and primacy in the organization, and make sure HR people have the special qualities to help managers build leaders and careers."*

  HR at GE is seen a 'business partner'. They are involved in strategic decisions and have an important role in aligning incentive schemes, leadership characteristics, development programs and culture with the current strategy. HR managers at GE are embedded in the functional units of the businesses to be easily accessible to their 'clients'. They usually have worked on functional projects before (e.g. information

technology or engineering) and have degrees similar to line managers (such as business, engineering, or IT) to be able to 'talk business'.

- *Partnership-like top management model and flat hierarchies:* Further organizational features of GE's fine-tuned leadership system are its flat leadership structure and its partnership-like management model at the top. As Jeff Immelt points out:

  > *"I spend most of my time on the top 600 leaders in the company. This is how you create a culture. These people all get selected and paid by me. I treat them as if they were a direct extension of my mission in the company. At the top, we don't run GE like a big company. We run it like a partnership" (GE 2005: 6).*

  The flat leadership structure ensures that the businesses are led by the people who actually run them and thus facilitates ownership, trust, and autonomy. The partnership-like leadership model creates a culture of openness, stimulates learning and idea exchange, and fosters consistency across businesses through frequent and direct communication. GE's leadership structure is closer to that of professional service firms than to that of traditional fortune 500 companies.

- *Differentiated Leadership Roles:* A final important characteristic of GE's leadership system is the clear and differentiated leadership roles of its top management, which are geared at balancing GE's short-term profitability and long-term success. Depending on the management level, GE's leaders are assigned clear organizational roles in advancing the combined firm. The CEO and his three vice chairpersons focus on GE's overall strategy and succession planning. They establish a deep understanding of the top 600 leaders to gain an early perspective on the 'next generation'. The major business CEO's (US$10 billion+) lead the culture and company direction, the key business leaders (US$1-10 billion) perform 'large operating jobs', conceptualize change and focus on current income and future growth. Finally, the business leaders (US$100 million+) perform 'small operating jobs', drive change and concentrate on growing their businesses and people.

Conclusion: Business-level advantages from GE's corporate leadership system

Over the years, General Electric has built a distinctive corporate leadership capability that increases the performance of GE's businesses in multiple ways:

- *Skilled and motivated managers*: GE's superior corporate HR processes, leadership development, and career opportunities provide its businesses with motivated general managers that have the skills to develop and execute successful strategies.

- *Improved staffing of key positions:* Stringent corporate succession planning and a vast corporate talent pool allow GE's businesses to rapidly staff key management positions with the most appropriate leaders.

- *High-performance learning culture*: GE's well-aligned corporate leadership concept and its integrated management of corporate values help its businesses to establish high performance learning cultures.
- *Change readiness*: GE's corporate ability to institutionalize and drive (cultural) change in issues that affect all businesses (e.g. productivity and innovation) improves the 'change readiness of GE's businesses' – a valuable ability in today's volatile environment.

(b) Corporate management systems

In this section, we explore several corporate management systems that improve the performance of GE's businesses and thus generate corporate management synergies: (1) corporate strategic planning, (2) corporate financial planning and control, (3) corporate initiative management process, (4) corporate innovation process, and (5) the GE operating system.

Corporate strategic planning: Over the years, GE's corporate managers have developed an effective corporate strategic planning process, which helps its businesses to respond to strategic challenges quickly and flexibly. The process culminates in an annual strategic planning meeting termed session S-1, where corporate and business-level managers discuss the strategy for the coming three years. Besides the strategic plan, the agenda of session S-1 includes the discussion of the economic and competitive environment, the general earnings outlook, and a business-level review of the portfolio of current and new strategic initiatives.

The corporate process is driven by a common strategic planning document that business heads are required to prepare for the annual meeting. The lean document, called the 'playbook[37], summarizes key strategic issues and response plans to these issues on five slides. At the 1986 meeting, Welch commented (Tichy & Charan 1989 from Grant 2005b: 345) on this simple planning tool:

> *"We asked 14 business leaders to present reports on the competitive dynamics in their businesses. How did we do it? We had them each prepare one-page answers to five questions: What are your market dynamics globally today, and where are they going over the next several years? What actions have your competitors taken in the last three years to upset those global dynamics? What have you done in the last three years to affect these dynamics? What are the most dangerous things your competitor could do in the next three days to upset those dynamics? What are the most effective things you could do to bring your desired impact on those dynamics?*

[37] To emphasize the firm's focus on organic growth, the playbook is currently called 'growth playbook'.

> *Five simple charts. After those initial reviews, which we update regularly, we could assume that everybody at the top knew the plays and had the same playbook. It doesn't take a genius. Fourteen businesses each with a playbook of five charts. So when Larry Bossidy is with a potential partner in Europe, or I'm with a company in Far East, we are always there with a competitive understanding based upon our playbooks. We know exactly what makes sense, we don't need a big staff to do endless analysis. That means we should be able to act with speed."*

Figure 3-15 summarizes the key slides of the playbook.

Figure 3-15: GE's playbook

GE's Playbook

Slide 1: What the Playing Field Looks Like Now

- Who are the competitors in this business, large and small, new and old?
- Who has what share, globally and in each market? Where do we fit in?
- What are the characteristics of this business? Is it commodity or high value or somewhat in between? Is it long cycle or short? Where is it on the growth curve? What are the drivers of profitability?

Slide 2: What the competition has been up to

- What has each competitor done in the past year to change the playing field?
- Has anyone introduced game-changing new products, new technologies, or a new distribution channel?
- Are there any new entrants, and what have they been up to in the past year?

Slide 3: What you've been up to

- What have you done in the past year to change the competitive playing field?
- Have you bought a company, introduced a new product, stolen a competitor's key salesperson, or licensed a new technology from a start-up?
- Have you lost any competitive advantages that you once had – a great salesperson, a special product, a proprietary technology?

Slide 4: What's around the corner?

- What scares you most in the year ahead – what one or two things could a competitor do to nail you?
- What new products or technologies could your competitor launch that might change the game?
- What M&A deals would knock you off your feet?

Slide 5: What is your winning move?

- What can you do to change the playing field – is it an acquisition, a new product, globalization?
- What can you do to make customers stick to you more than ever before and more than anyone else?

Source: Welch (2005a)

The playbook encourages GE's business heads to break free of the day-to day running of their businesses to spend time reflecting on their strategies. It focuses them on key

strategic issues. The playbook is used to facilitate yearly review meetings with corporate management, which 'test' the strategy, challenge its assumptions, and help businesses to discover new growth opportunities. The playbook is closely aligned with current corporate strategy and establishes a number of binding rules for strategy reporting such as definition of market scope. These 'rules' frequently improved the quality of GE's business strategies. For example, the 'market scope rule' forced businesses to define their market scope in a way that their share of any market they were in could not be more than 10 percent. This changed the minds of business heads to notice additional profitable growth opportunities – as Jack Welch explains:

> *"On the road in Q&A sessions, this is how I talk about the market definition dynamic [employed in the strategy review meetings]: Since I am usually sitting in a chair, I ask audience members to imagine that they are a chair manufacturer. They can define their market as the kind of chair I am usually in – with curved metal arms, blue fabric, and wheels. Or they can define it as all chairs. Best yet, they can define their market as all furniture. Imagine the share differences and the implications for strategy!" (Welch 2005a: 176)*

Sticking to the playbook methodology, Jeff Immelt refined GE's strategy process in 2001 to strengthen the focus of its businesses on the external environment (outside-in thinking) and cross-business issues (Bossidy & Charan 2004): He divided GE's strategy session into the two processes 'exploration of external changes' and 'business planning'. During the first process, businesses are required to analyze the changes in their external environment. Their view of the environment is shared with GE's top fifty executives over a secure website. These executives then meet at the corporate center to discuss external changes, future opportunities, and future threats together with outside experts. The vivid discussion among executives from different industries with different perspectives during these sessions usually opens up blind spots and generates new insights and ideas. The discussion frequently leads to the discovery of collaboration opportunities across GE's businesses. After the first strategy session, the business leaders retreat to process the acquired knowledge and develop their playbooks, which they discuss at the second strategy meeting, the (traditional) business planning session. The renewed process has yielded the foresighted cross-business 'Ecomagination' initiative. As Jeff Immelt states: *"Ecomagination is an integrated marketing campaign ... The goal was to strengthen the company by picking a theme that was bigger than just energy, rail, or aircraft engines, or plastics. We'd never done anything like that before. But in 2004 it came up in our strategic planning process ... that there was a big theme emerging across five different businesses – a real focus on emissions reduction, energy efficiency, water supply, and what I would call generally the economics of scarcity*" (Stewart 2006: 9-10).

Over the last several years, two further changes in GE's strategic planning approach can be observed, which are attributed to Immelt's quest to increase the focus of GE's business on organic growth. First, GE newly engages in long-term planning, something Jack Welch deeply opposed. Mr. Immelt involves line managers in debates and dialogues about technological change, the business environment and 'big wins' that might be possible over the next 15 years (Kleiner 2004). He deliberately fosters the forethought about how the role of GE and other stakeholders will change in the next 20 years. Second, GE increases its strategic focus on innovation. During strategic planning sessions, Jeff Immelt demands that all businesses present their pipeline of 'Imagination Breakthroughs'(IBs) for the next years. 'IBs' are projects that have the potential for at least 100 million in incremental growth (GE 2005a)[38]. Every year, GE's business leaders must submit at least three proposals for 'IBs' (Brady 2005).

In conclusion, GE's carefully designed strategic planning process delivers value to its businesses by increasing the quality of their strategies. The process forces and enables businesses to think about short- and long-term strategic goals, focuses them on rigorous environmental analysis, which leads them to face reality and act timely, and enables them to profit from strategic skills and oversight of GE's corporate management.

Corporate financial planning and control: GE's corporate managers have implemented a relentless financial planning and control system, which challenges and simulates the performance of its businesses.

In a series of financial planning meetings with corporate managers, GE's businesses agree on financial targets based on shareholder value measures. Target setting is linked to the strategic planning process and is centered on how to beat competition and last year's performance. It is a dialogue between the businesses and the corporate center about opportunities and threats. The dialogue results in a joint growth scenario for the next year, termed 'operating plan'. Operating plans are subject to review and can be modified when the assumptions on which they have been based are changing.[39] As Welch (2005a: 197-198) explains:

> *"(...) An operating plan for the next year [is] filled with aspirations, primarily directional, and containing numbers that are mutually understood to be targets, or put another way, numbers that could be called best efforts.*

[38] In mid-2005, GE had a portfolio of 91 Innovation Breakthroughs in four categories: technical innovations; ideas that create value for customers and GE; opportunities to expand markets; and projects that make great ideas commercial products (GE 2005a, GE 2005b). Over the next four years, GE plans to invest about $5 billion in Imagination Breakthroughs with the potential to deliver $25 billion of incremental revenue growth (GE 2005a).

[39] GE's financial planning and control system has characteristics of the recently emerging 'beyond budgeting' approach (Hope & Fraser 2003). However, GE had already implemented this approach in the early 1990s, well before the popularity of the concept that was initiated in 2003 with Hope's book 'Beyond Budgeting'.

> *Unlike a conventional budget, with its numbers cast in concrete, an operating plan can change as conditions change. A division or business can have two or three operating plans over the course of a year, adjusted as needed through realistic dialogue about business challenges. Such flexibility frees an organization from the shackles of a budget document that has become irrelevant – or even downright dead – because of changing market circumstances (...).*
>
> *[In that planning and control system] compensation for individuals and businesses is not linked to performance against budget. It is linked primarily to performance against the prior year and against competition, and takes real strategic opportunities and obstacles into account"*

Business targets at GE consist of two components which are agreed on in the performance dialogues: a 'basic' component and a 'stretch' component. The 'basic' component is derived from rough financial objectives for each business. It has been prepared beforehand by corporate controllers to ensure realistic goals and to reduce 'gamesmanship'. The 'stretch' component has no pre-defined basis and is supposed to encourage managers to set ambitious goals for their businesses using "*dreams to set business targets, with no real idea of how to get there*" (GE 2003 from Bartlett & Wozny 1999: 9). Managers are not held accountable for stretch goals, however, if they achieve them, they are rewarded with significant bonuses. GE is extremely cautious that none of their managers violates this 'don't-punish-failure concept' and that stretch targets are not abused to force people to work 60 hour weeks to achieve impossible goals. Welch (2005a: 203) explains the possible abuse of stretch targets:

> *"Here's the modus operandi of those types [that abuse stretch goals]: At the outset of the financial planning cycle they appear to heatly buy into the new program and ask their people for big stretch goals. Then, without openly admitting it, they take the team's stretch goal and use it as a commitment number – an old-fashioned budget target. When the end of the year roles around, these managers take terrible advantage of their people. They identify the stretch number as the target, and they nail the team for not hitting it.*
>
> *That behavior stinks, and it sets the whole process back by demonstrating to the people in the trenches that they can't trust it. Next time when they're asked to dream you can be sure their dreams will be very small.*
>
> *Part of the transformation process to a nonbudgeting company is to find the managers who pull this bait and switch. Call them on it, and take whatever action you need to make sure it doesn't happen again. "*

The objectives of stretch goals are to encourage GE's businesses to perform as good as possible and to "*create an atmosphere that asked anyone: how good can you be?*" (Bartlett & Wozny 1999: 9). As Steve Kerr, the head of GE's Crotonville management academy, explains:

> *"It's not the number per se [in stretch targets], especially because it's a made-up number. It's the process you're trying to stimulate. You are trying to get people to think of fundamentally better ways of performing their work." (GE 1995: 5)*

By the mid-1990s, stretch goals were an established part of GE's culture and Jack Welch concluded in 1996:

> *"In stretching for these 'impossible targets' we learned to do things faster than we would have going after 'doable' goals, and we have enough confidence now to set stretch targets of at least 16% operating margin and more than 10 turns by 1998." (GE 1995: 6)*

GE's managerial performance targets are constantly aligned with the current strategy. They have financial components (ROTC[40], revenue, cash, EPS), strategic components (customers, initiatives, business imperatives), and cultural components (leadership, compliance) and include quantitative and qualitative measures (GE 2005g). GE's top 600 leaders have 3-year long-term incentives and GE's top 5000 executives have (at least to some extent) stock-based incentives (GE 2005g; Narayanan 2005).

For the new growth strategy under Mr. Immelt, managerial incentive compensation was adjusted to include organic growth and customer metrics in addition to current strategic and financial objectives (GE 2005c). The new metrics assessed the ability of managers to 'come up with new ideas'[41], to 'improve customer service'[42], and to 'boost sales' (Brady 2005). In 2005, 20% of bonuses were tied to meeting pre-established measures of how well a business is improving its ability to meet customer needs (Brady 2005).

In conclusion, GE's financial planning and control processes improve the performance of GE's businesses by preventing inertia and driving continuous performance improvement. In this processes, corporate acts like a good parent stimulating its children to prosper, grow, and mature with increasingly demanding challenges.

Corporate initiative management process: As has been highlighted previously, corporate initiatives play an important role at GE. They mobilize businesses to address emerging strategic issues within the boundaries of GE's long-term corporate strategy. Over time, GE has built exceptional organizational capabilities in initiat-

[40] ROTC = Return on total capital invested

[41] Current measurement includes the number and quality of imagination breakthroughs.

[42] Current measurement includes one operating and one social measure for customer satisfaction (Stewart 2006). The social measure, the net promoter score, is the same for all of GE's businesses. The net-promoter score is the percentage of people who say they would recommend GE to a friend minus those who would not. The operating measure differs across businesses. For example, for the aviation business it is 'time-on-wing' (Stewart 2006).

ing, implementing, and monitoring such initiatives. These organizational skills are embedded within a dedicated initiative management process which links planning and execution.

The corporate initiative management process centrally infuses new initiatives into GE's businesses and ensures sponsorship and accountability. Initiative management is closely aligned with GE's control and HR processes, as Bartlett and Wozny (1999: 12) illustrate with GE's Six Sigma initiative:

> *"Like all initiatives announced at Boca [GE's annual gathering of its 650 top managers], Six Sigma quality was more than a slogan: it was a well-developed program, with a detailed plan for its implementation. Furthermore, it would be monitored throughout the year in a carefully linked series of management meetings ... The Boca initiative announcement was followed up by a first progress report at the two-day March CEC meeting [GE's quarterly meeting of its top level executives]; then in the April Session C reviews, Welch would check how key human resources had been deployed against the target; the July strategic review sessions would review the impact of the initiative on each business's three-year outlook; October's Officers Meeting tracked progress and showcased best practice; and the November operating plan reviews would fold the impact into the following year's forecasts. Said Welch, 'We are relentless'."*

To find the most appropriate organizational solution and to facilitate learning, GE's initiative management includes frequent experimentation. For instance, to find the most suitable sales approach for the 'One GE' initiative, many different sales force configurations have been tested. As Jeff Immelt highlights in his letter to stakeholders: "*We now have 'vertical teams' ... [to] better serve [customers] as 'one GE'. Mike Neal at Commercial Finance is our thought leader at this. Mike has GE's largest marketing and sales team. He has 11 commercial* ***experiments*** *under way, all testing new ideas to structure sales forces to satisfy our customers ..."* (GE 2005a: 7, emphasis added).

In conclusion, the initiative management process adds value to GE's businesses by improving execution. The structured and aligned process helps GE's businesses to implement new strategic ideas quickly and to profit from experience and best practices of the combined firm.

Corporate innovation process: A further distinctive management process of GE's present day organization is its corporate innovation process. To stimulate 'Imagination Breakthroughs' (IBs)[43], GE's corporate managers have recently installed a common process and language for innovation across its businesses. At the heart of the process is

[43] We have described the 'imagination breakthrough' initiative in the section on corporate strategic capabilities.

the CECOR framework, a five-step decision guideline that helps to determine whether a project meets 'IB' standards (see figure 3-16).

Figure 3-16: GE's CECOR Framework for Corporate Innovation

CECOR Framework

The heart of Imagination Breakthrough is CECOR, a five-step "go or no-go" series of tollgates and analyses that help determine whether a project meets IB standards.

- **C**alibrate is the first step and involves a high-level assessment of the GE business, identifying the unit's customers, and their needs, wants and preferences.
- **E**xplore. The second step is a further review of customer needs, reinforcing the effort with market data and analyzing competitors' strengths and weaknesses. At this stage, before additional resources are committed to a project, it will go through a tollgate review.
- **C**reate, the third step, is where the building process begins, with the project receiving limited financial and team resources. Additionally, the organizational and design aspects will be re-examined to see how well they align with the customer's interests and with GE's interests.
- **O**rganize. The pace picks up considerably at this stage, as appropriate team members are brought on to the project and go-to-market and revenue/income plans are finalized.
- **R**ealize. With the project rolled out and in motion, preliminary results are examined to see if they're meeting or exceeding the revenue and income plans. The impact on the customer and GE are considered, and the findings determine whether the project can go ahead without any changes, needs to be modified or if allocated resources should be redirected to another use.

Source: Interview (E28), GE (2006d)

In a regular and rigorous rhythm, GE's corporate management drives innovation across its businesses. The Commercial Council, a cross-business expert team headed by Jeff Immelt[44], reviews and discusses new IBs. Business-level 'growth boards' ensure funding, key metrics of IBs[45] are tracked regularly, and best practices are shared through success cases, webcasts and conference calls. During the yearly strategic planning cycle, the strategic mid- and long-term focus of IBs are assessed. Additionally, corporate management conducts in-depth IB reviews with each business, so-called 'IB deep dives'.

[44] The 'Commercial Council' consists of GE's chief marketing officer, Beth Comstock, and a dozen top sales and marketing executives including some business unit heads such as GE Consumer Finance CEO David Nissen (GE 2005a; Brady 2005). The council holds telephone conferences every month and meets quarterly (Brady 2005). The atmosphere is described to be more collegial and experimental than at other GE gatherings (Brady 2005).

[45] Tracked metrics include the following: revenue/assets, profit, cost/investment, fit/confidence (GE 2005b). The fit/confidence check is a portfolio approach that assess the likelihood that GE can develop the product and the customer will buy it (GE 2005b).

Moreover, Jeff Immelt reviews about eight imagination breakthroughs every month to check on funding and major milestones and to remove growth barriers. In a recent interview he explained the characteristics and outcomes of these reviews:

> *"I have all eight program managers sitting around the table ... I don't want to see any longwinded PowerPoint presentations. I just have a little profile of each program in front of me, and I want the program managers to talk to me. I ask 'What is the biggest internal barrier?' 'What is the biggest external barrier?' 'Are you on time?' 'What's the revenue flow?'... At a meeting last year reviewing the value products for health care ... we added $20 million in funding and took the responsibility for the value products away from the product lines and put it in China. That was how we removed an internal barrier: The mother business was squeezing it. In the years since, sales have gone up from $60 million to $260 million. At a recent update for the same products, we talked more about an external barrier: how we might design knockdown kits so that we could design the thing and make a kit in India but have it assembled in China and avoid the tariffs and duties." (Stewart 2006: 10)*

In conclusion, the rigorous corporate innovation process and best practice tools help GE's businesses to improve their performance by complementing their strong operational efficiency with creativity and innovation. This ability may turn out to be a major competitive advantage in a more volatile low growth environment.

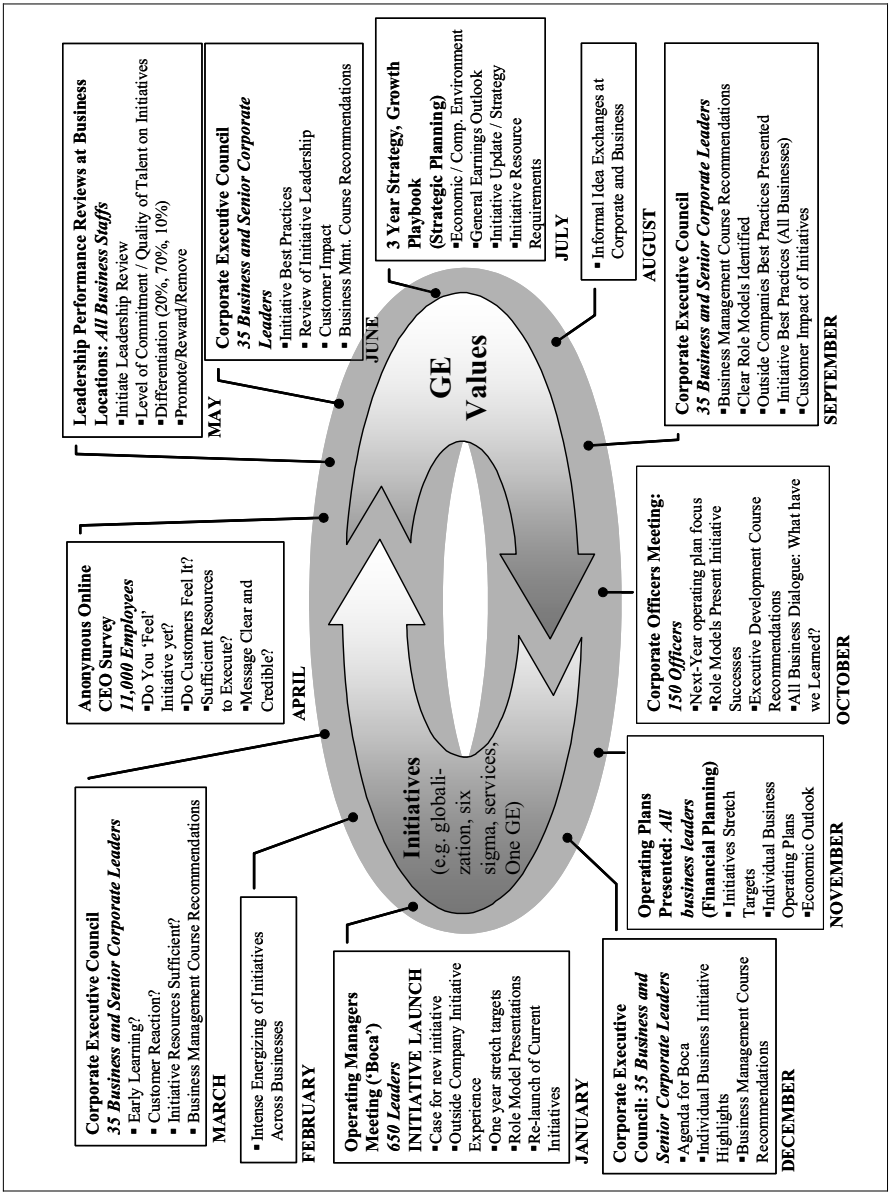
GE operating system: Corporate managers have established the GE Operating system to align the organization continuously with the environment and to ensure internal consistency between leadership, management systems, and structures (see figure 3-17 on page 93).

The GE Operating System is a meta-management-system that has the following objectives: (1) energizing and incubating strategic initiatives, (2) align leadership development and human resources for execution of strategic initiatives, and (3) facilitate learning and best practice exchange across businesses. As Jack Welch explains in his 2000 letter to shareholders:

> *"The GE Operating System is GE's learning culture in action—in essence, it is the operating software of the Company. It is a year-round series of intense learning sessions in which business CEOs, role models and initiative champions from GE as well as outside companies, meet and share the intellectual capital of the world: its best ideas. The central focus is always on raising the bar of Company performance by sharing, and putting into action, the best ideas and practices drawn from our big Company-wide initiatives. The Operating System is driven by the soft values of the Company – trust, informality, simplicity, boundaryless behavior and the love of change ... What may appear in the diagram to be a typical series of stand-alone business meetings is in reality an endless*

process of enrichment. Learning at each meeting builds on that of the previous, expanding the scope and increasing the momentum of the initiatives ... Globalization has been enriched through more than a dozen cycles, Six Sigma is in its fifth cycle, Services is in its sixth, and e-Business in its third." (GE 2001: 9)

Figure 3-17: GE's operating system



Source: Interviews (E27, E30, E31)

GE's operating system consists of three major components: values, corporate initiatives, and the operating calendar. The *values*, GE's way of thinking and working, drive the operating system. *Corporate initiatives* focus GE's businesses on what they need to do to accomplish GE's mission and long-term strategy. They are big bets or strategic issues that differentiate GE and embody the imperatives of the company that would not happen naturally or without focus. The *operating calendar* consists of a series of executive-driven planning and review sessions around leadership and management processes. The operating calendar links GE's corporate leadership development, strategic planning, financial planning and control, innovation process, and initiative management to one another. The rigorous and disciplined operating cycle occurs at the same time every year, and creates a predictable rhythm and flow at GE.

This rhythm of the GE operating system paces GE's businesses in their planning, execution, and continuous improvement of strategic initiatives. The 'initiative cycle' works as follows (see figure 3-18 on the previous page): Initiatives are (re-)launched at the annual meeting of global leaders in January. The strategic rationale is explained, role models are presented and the one-year stretch targets are communicated. Businesses then commit resources and high visibility jobs to the initiatives and communicate intensely to 'energize' the initiatives. In quarterly meetings, business leaders share what they have done to drive the initiative and exchange (early) learning. Furthermore, educational programs like the business management course at GE's corporate university encourage participants to compare best practices in other companies to GE's initiatives. Recommendations from these courses are taken seriously and are discussed in quarterly Corporate Executive Council meetings. An anonymous online CEO survey of 11,000 employees in April evaluates initiative awareness ('feel'), the clarity and clearness of communication ('messages'), and resource-allocation ('funding'). Human resource reviews in April and May assess capabilities and progress of initiative leaders, reward A-players, and take actions if the level of commitment or the quality of the initiative leadership need improvement. The initiative cycle is completed in October with the presentation of role models that have emerged from GE's businesses to GE's 150 corporate officers at their annual meeting.

Through its operating system, GE constantly updates and improves its organizational capabilities and aligns past and future strategic initiatives to address emerging environmental opportunities and threats. The system can be viewed as GE's 'organizational DNA', which is updated continuously through an endless learning cycle of variation, selection, and retention.

In conclusion, the system adds value to GE's businesses by improving their ability to rapidly translate new ideas into strategic initiatives and execute them, facilitating organizational learning, and guiding the distribution of best practices. As Jack Welch explains:

> *"[The GE Operating System] allows GE businesses to operate at performance levels and speeds that would be unachievable were they on their own ... The GE Operating System translates ideas into action across three dozen businesses so rapidly that all the initiatives have become operational across the Company within one month of launch, and have always produced positive financial results within their first cycle." (GE 2001: 9)*

Conclusion: Business-level advantages from GE's corporate management systems

In conclusion, GE's corporate capability to design and operate managements systems across its businesses provides multiple advantages for its businesses:

- *Strategic quality and agility*: GE's regular and rigorous corporate strategic planning process leverages the 'strategic brain' of the combined firm. It ensures that businesses anticipate the impact of environmental changes early on and that they consider long-term strategic goals. Furthermore, it ensures that the best new strategic initiatives are identified and selected. This improves the quality of business-level strategies and fosters strategic agility.
- *Continuous performance improvement*: GE's strict financial planning system stimulates continuous improvement of business-level performance. As a sport coach helps athletes to exploit their full potential, the financial planning process helps GE's businesses to mobilize their resources for increasing their performance.
- *Speed and success rate of execution*: GE's operating system improves the ability of GE's businesses to rapidly translate new ideas into strategic initiatives and execute them. Furthermore, it increases the success rate of execution by facilitating learning and guiding the distribution of best practices across businesses.
- *Innovativeness*: GE's corporate-driven management systems provide multiple corporate-wide channels for the ongoing discovery of new ideas and business opportunities. This 'variance' of new thoughts coupled with GE's strict 'innovation process' increases the innovation capacity of the firm and provides GE's businesses with a sound basis for growth.

(c) Corporate Structure

In this section, we explore several elements of GE's corporate structure that improve the performance of its businesses and thus generate corporate management synergies: (1) primary corporate structure, (2) secondary corporate structure, and (3) decision rights.

Primary Structure: Corporate managers regularly adjust GE's primary corporate structure to increase the performance of its businesses.

For instance, in 2003 under the 'simplification initiative', GE increased the efficiency of its businesses by eliminating redundancies through central shared service centers in information technology, legal, and transaction oriented human resources functions. The reduction of overhead costs that resulted from centralizing these services (scale and scope economies) frees up cash that businesses can (partially) use for investments in new growth opportunities.

A more drastic restructuring in mid-2005 followed the 'simplification initiative'. GE restructured its 10 industrial businesses and 28 financial service units into the six business units 'Infrastructure', 'Industrial', 'Commercial Finance', 'Consumer Finance', 'Healthcare', and 'NBCU' (GE 2006c) with 50 profit and loss responsibilities (GE 2005g). The number of direct reports to Jeff Immelt was reduced from eleven to six (GE 2005f). Related businesses with common business logic were consolidated under unified leadership with profit and loss responsibility (GE 2005e). For instance, the 'aircraft engine', 'energy', 'oil & gas', 'rail', 'water', 'energy financial services', 'aviation financial services'[46] businesses were combined into the 'infrastructure' unit. The restructuring bundled business capabilities and accelerated growth through improved market focus, better access to joint customers, common go-to-market processes, joint R&D, and deeper domain experience of executive leadership. Furthermore, it reduced costs through synergies in purchasing, supply-chain management, and back-office activities (GE 2005e). For the combined infrastructure unit, projected joint growth opportunities were roughly 10 billion US$ by 2008[47] and projected cost savings are 350 million US$ by 2006 (GE 2006c). Through the restructuring – that was done from a position of financial strength and not during a crisis – GE proactively improved the performance of its businesses by realizing operative synergies.

In addition to major changes in corporate structure, GE continuously separates or recombines business units to improve their performance. An example is the spherical separation of the healthcare unit for value products[48] from the premium product lines. GE de-merged the business and relocated it to China, realizing that the development of low-cost healthcare products could not be achieved by de-featuring existing premium products but required separate product development teams with different mindsets that are close to the customer in the developing countries (cf. Stewart 2006).

[46] The financial service businesses for energy and aviation are 'industry verticals' from GE's former commercial finance business. They couple deep operating knowledge with commercial finance knowledge. To illustrate: The CEO of GE's energy financial services business, which invests in energy and provides financing to the energy industry, stresses the synergistic benefits from its sister infrastructure businesses: "(…) our strength is more than financial. We work closely with GE Energy, enabling us to provide not only financial capital but intellectual capital and operational expertise" (GE EFS 2007)

[47] Note that these are joint but not necessarily incremental growth opportunities.

[48] Value products are low-cost, no-frills products (cf. GE DI 2005)

Finally, GE aligns reporting relationships and line responsibilities to improve business performance. For example, when GE acquired the innovative British life sciences and medical diagnostic company Amersham in 2003, Jeff Immelt put the firm's CEO, Sir William Castell, in charge of the combined GE Healthcare unit. The rationale was that the new CEO, who now oversees GE's traditional healthcare technology in addition to his life sciences businesses brings a fresh perspective on 'healthcare at GE' and fosters new, innovative offerings that combine the strength of both businesses.

Secondary Structures: Corporate managers regularly establish dedicated secondary structures that complement its primary structure to improve the performance of GE's businesses.

For instance, they establish formal cross-business teams for exploring and driving selected strategic and organizational topics. These teams consist of roughly 15 senior executives and experts from GE's different businesses and are termed 'councils'. Councils explore new issues and leverage best practices. Furthermore, they review, revise, and approve projects regarding special topics such as innovation.

Councils have a long and successful tradition at GE. When Jack Welch launched his 'service' initiative in 1994, he initiated a 'Service Council' at which service projects were discussed and through which top managers could exchange ideas (Bartlett & Wozny 2005). Jeff Immelt heavily draws on councils to find new ways to grow organically and to increase GE's focus on the customer. In 2002, he initiated and headed the 'Commercial Council', which consisted of GE's chief marketing officer and a dozen top sales and marketing executives including some business unit heads. The agenda of the council included the alignment of GE's sales force with customer needs, developing world-class marketing, driving sales force effectiveness, and serving global customers with excellence (GE 2004). Strategic initiatives such as 'One GE' and 'at the customer, for the customer' and 'imagination breakthroughs' originated from this council. In 2006, Immelt formed a new council with 25 people from across the company to explore how to structure R&D and manufacuring internationally to increase GE's market share and profitability in developing markets (cf. Stewart 2006).

Decision Rights: Finally, corporate managers continuously align GE's primary decision rights across businesses to ensure that they are clear, and foster accountability and responsiveness. For instance, corporate managers maintain a lean corporate structure that facilitates direct decision-making and reduces redundancies.

Conclusion: Business-level advantages from GE's corporate structure

- *Increased business-level efficiency*: GE's corporate structure reduces the cost base of its businesses by facilitating the reduction of overhead costs and the exchange of best practices (efficiency synergies).

- *Increased business-level innovation and growth*: GE's corporate structure also improves the ability of businesses to grow by improving the focus on the customer, fostering adaptation and innovation, and supporting the realization of cross-business growth opportunities (growth synergies).

(3) Conclusion

Overall, GE seems to create significant corporate management synergies from distinctive corporate strategic and organization design capabilities that improve the performance of its businesses. These capabilities manifest themselves concretely in GE's corporate mission and long-term strategy, active portfolio management, corporate initiatives, corporate leadership systems, corporate management systems, and corporate structure. In conclusion, GE's businesses are likely to perform better under the corporate umbrella than if operated as independent companies. In the words of GE's CEO Jeffrey Immelt:

> *GE is a multi-business growth company bound together by common operating systems and initiatives, and a common culture with strong values. Because of these shared systems, processes and values, the whole of GE is greater than the sum of its parts. (GE 2004: 2)*

3.4.5 Summary and Discussion

This section proposed corporate management synergies as a new type of cross-business synergy, which we defined as advantages of MBFs from leveraging corporate management capabilities across their businesses. Corporate management synergies focus on the vertical relationship between the corporate center and the businesses. They capture the performance increases of businesses that directly result from the activities of corporate managers.

In a first step, we delineated three classes of corporate management capabilities from the literature: corporate functional capabilities, corporate strategic capabilities, and corporate organization design capabilities. In an illustrative case study of corporate management synergies at GE, we provided examples for concrete manifestations of these capabilities in the corporate context of the firm and discussed how they might improve business-level performance. We showed that corporate management synergies might be derived from diverse managerial activities such as the formulation of a vision and the design of corporate structure. Furthermore, our case illustrated the systemic nature and social complexity of corporate management synergies.

We concluded that not all general management resources would contribute to corporate advantage. However, if a firm possesses valuable corporate management capabilities, chances are high that the synergies derived from them contribute to corporate advantage because these capabilities are likely to be rare, causally ambiguous and so-

cially complex. While we lack the empirical basis to pinpoint unique corporate management capabilities, we suggest that such capabilities are likely to evolve around managerial innovations.

Overall, general management synergies elevate corporate management from a mere context factor to an original source of value and thus bring resource-based arguments of managerial innovation to the discussion of corporate management in addition to the traditional control arguments from agency theory. Our conceptualization can only be a start in the exploration of corporate management synergies. Further research is necessary to provide a deeper understanding of the nature and genesis of corporate management capabilities and their link to performance. The emerging literature on corporate management (e.g., Goold et al. 1994; Bowman & Helfat 2001; Collis et al. 2007), management innovation (e.g., Birkinshaw et al. 2005), and management systems (e.g., Simons 1991) may provide fruitful avenues for future research.

4 Summary and Discussion of Part I

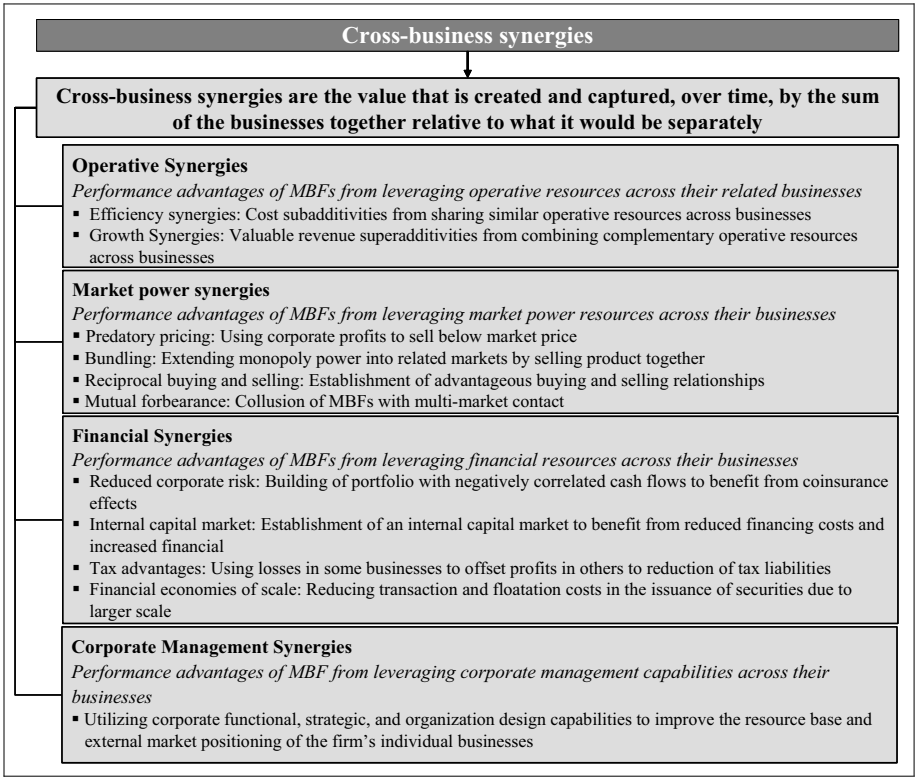
The first part of this dissertation has laid the groundwork for the empirical component of our study. It established a dedicated research perspective on cross-business synergies and answered our first research question that explored the types of cross-business synergies that MBFs can principally realize.

4.1 Summary

We started with an introduction of the concept of cross-business synergy in *chapter 2*. Employing an outcome-based definition, we defined cross-business synergies as the value that is created and captured, over time, by the sum of the businesses together relative to what it would be separately. Furthermore, we conceptualized cross-business synergies as the difference between total cross-business synergy potential and realization costs. These costs can be significant and include coordination costs, controlling costs, and costs of compromise and inflexibility. In a next step, we related cross-business synergies to corporate advantage. We argued that cross-business synergies contribute to corporate advantage if they are either a source of competitive advantage or if the firm has transaction and/or agency advantages in realizing them. Finally, we reviewed studies on profitability differences between firms. These studies observed the existence of a significant corporate effect, which strongly suggests that cross-business synergies do in fact exist. However, they only focus on outcomes and do not do not provide any insights into the types of cross-business synergies.

In *chapter 3*, we addressed this lack of insight into the nature of the corporate effect and sought to answer our first research question. We developed a resource-based typology of cross-business synergies. We derived four distinct types of cross-business synergies from the literature and related them to corporate advantage: operative synergies, market power synergies, financial synergies, and corporate management synergies. Figure 4-1 on the next page provides an overview.

Figure 4-1: Summary of Cross-business Synergy Types



Source: author

We started by defining operative synergies as the performance advantages of MBFs from leveraging operative resources across their related businesses and classified them into efficiency and growth synergies. Efficiency synergies are cost subadditivities from sharing similar operative resources across businesses. Growth synergies are valuable revenue superadditivities from combining complementary resources. We showed that operative synergies can contribute to corporate advantage by better utilizing valuable resources that are rare and difficult to imitate or by exploiting transaction and agency advantages of the firm. We concluded that the importance of operative synergies is likely to increase because many MBFs have refocused their portfolio on a strong company core with related businesses, which increases their opportunities for leveraging operative resources. As an empirical study suggests, the increased growth rates demanded by investors are likely to shift attention from efficiency synergies to growth synergies. However, while diversification literature documents efficiency synergies reasonably well, growth synergies are a largely unexplored phenomenon and

require further theorizing and empirical research.

We proceeded by discussing market power synergies, which we defined as performance advantages of MBFs from leveraging market power across their businesses. We explained that MBFs achieve market power through strategies of predatory pricing, bundling, reciprocal buying and selling, and mutual forbearance. As single business firms cannot realize these strategies, we theorized that market power synergies are a likely source of corporate advantage. However, limited empirical evidence for market power synergies makes our conclusions speculative. Furthermore, continuously tightened national anti-trust laws are likely to make the legal realization of market power synergies increasingly difficult or even impossible.

Subsequently, we defined financial synergies as performance advantages of MBFs from leveraging financial resources across their businesses. We clarified that MBFs can achieve financial synergies by reducing corporate risk, establishing an internal capital market, and exploiting tax advantages as well as financial economies of scale. Furthermore, we suggested that financial synergies might contribute to corporate advantage by increasing the willingness of stakeholders to make firm specific investments, reducing debt-financing costs, increasing financial flexibility, and exploiting transaction cost advantages. We concluded that management scholars might underestimate the importance of financial synergies, specifically in the context of complex corporate strategies.

We completed our typology of cross-business synergies with the conceptualization of corporate management synergies, which we defined as performance advantages of MBFs from leveraging corporate management capabilities across their businesses. Corporate management synergies focus on the vertical relationship between the corporate center and the businesses. They capture the performance increases of businesses that directly result from the activities of corporate managers. Corporate management synergies stem from management capabilities that shape the corporate context of the firm and provide businesses with managerial advice. We conceptualized three classes of such capabilities: Corporate functional capabilities, corporate strategic capabilities, and corporate organization design capabilities and discussed their manifestation in elements of the corporate context such as corporate management systems and structure. An illustrative case study of corporate management synergies at GE provided deeper insights into the concept and complemented our discussion. We argued that corporate management synergies are likely to be a source of corporate advantage because corporate management capabilities seem to be rare, causally ambiguous and socially complex. We concluded that further research is necessary to provide a deeper understanding of the nature and genesis of corporate management capabilities and their link to performance.

4.2 Implications for theory and managerial practice

This section discusses the contribution of the findings that we have just summarized to theory (4.2.1) and managerial practice (4.2.2).

4.2.1 Implications for theory

Part one of this study attempts to make a broader contribution to theory by providing new insight into the nature of the corporate effect, extending resource-based conceptualizations of corporate strategy, clarifying the role of the corporate center, and delineating the sources of value in corporate rationales and diversification.

(1) New Insight into the nature of the corporate effect

A primary contribution of this first part of the dissertation is new insight into the nature of the corporate effect (Bowman & Helfat 2001). By providing a typology of cross-business synergies and discussing their impact on corporate advantage, this study clarifies and systematizes the sources of the corporate effect. In particular, this paper highlights the importance of valuable growth advantages of MBFs from (re)combining complementary resources across businesses (growth synergies) and the advantages from leveraging corporate management capabilities across businesses (corporate management synergies). While the literature implicitly refers to these advantages of MBFs, they have only received little, if any, attention. This research may, in part, provide an analytical lens for assessing these neglected performance advantages of MBFs in more detail.

More generally, this study may establish a new research perspective on value creation within MBFs. Current studies in this line of research focus almost exclusively on assessing the performance effects of corporate diversification by comparing the performance of related firms with unrelated firms and/or single business firms (Palich et al. 2000). From these studies, researchers can only draw indirect inferences regarding cross-business synergies.[49] Thus, these studies reveal virtually nothing about the sources of cross-business synergies and their realization. Consequently, management research may neglect important sources of value creation in MBFs like growth synergies or may not discover them at all. The typology that this study developed may provide a starting point for a more direct examination of value creation in MBFs. For instance, by delineating growth synergies, the typology provided us the necessary perspective for investigating their realization in the second part of this study. Further studies from this perspective may follow and investigate other types of cross-business syn-

[49] An example of such an indirect inference would be the following: The findings of the diversification study 'xyz' suggest that related diversifiers outperform unrelated diversifiers. Consequently, we infer that economic benefits from economies of scope (operative synergies) are greater than economic benefits from risk diversification (financial synergies).

ergies. For instance, a deeper exploration of specific aspects of corporate management synergies should generate fruitful insights.

(2) Extension of resource-based conceptualizations of corporate strategy

The first part of this dissertation also makes a broader contribution to the resource-based view of the firm (Barney 1986; Barney 1991; Grant 1991; Peteraf 1993) by providing a typology of corporate resources that may play an important role for MBFs in achieving corporate advantage. The resource-based view of the firm focuses internally on creating configurations of valuable, rare, and difficult-to-imitate resources that can be leveraged (Barney 1986; Amit & Shoemaker 1993). The typology that we developed in the first part extends existing resource-based conceptualizations of corporate strategy (e.g., Collis & Montgomery 2005) and may provide a framework for conducting future research on corporate resources of MBFs.

(3) Clarification of the corporate center role in MBFs

This study also makes a broader contribution to clarifying the role of the corporate center in MBFs, which scholars have identified as a key issue in strategic management research (Hill 1994; Rumelt et al. 1994; Markides 2002). First, by delineating *types and sources of cross-business synergies*, we provide some insight into value-adding corporate-level activities. This insight may add theoretical rigor to the corporate center debate and may help researchers to determine what meaningful roles of the corporate center could be.

Second, by conceptualizing and discussing *corporate management synergies*, we shed some light on valuable relationships between the corporate center and each business. The classification of corporate management capabilities and the discussion of their manifestation in specific elements of the corporate context may help to derive further roles of the corporate center. For instance, based on our findings, researchers may theorize that one role of the corporate center is to develop corporate organization design capabilities and apply them to a set of managerially related businesses. Being more specific, they could propose that the role of the corporate center is to design and operate corporate management systems.

While the inferences that a researcher may draw from our classification and conceptualization of cross-business synergies are rather broad, they add at least some theoretical rigor to the frequently arbitrary definition of corporate center roles (cf. Markides 2002). Roles of the corporate center derived from our typology of cross-business synergies are grounded in theory and are explicitly related to the creation of corporate value.

(4) Terminology for describing the sources of value in corporate strategies

This study also contributes by proving a terminology for describing the underlying sources of value in corporate strategies. The delineation of different types and sources of cross-business synergies provides a theoretically grounded terminology for describing the value generation logics of different corporate strategy archetypes (so-called corporate rationales; see: Porter 1987; Goold, Campbell & Alexander 1994; Johnson, Anand & Jayanti 2005; Anand 2005; Scholes & Whittington 2006; Barney 2007). For instance, corporate management synergies may be used to describe the primary source of value of a corporate strategy of restructuring (cf. Porter 1987). Similarly, the primary source of value of a corporate strategy of related diversification (e.g., Barney 2007) may be conceptualized as operative synergies, while the primary source of unrelated diversification (e.g., Barney 2007) may be described through financial synergies.

4.2.2 Implications for managerial practice

The first part of this study also attempts to contribute to managerial practice in several ways:

(1) First, the cross-business perspective that this study establishes provides new insights for corporate strategists. Specifically, our systematization of cross-business synergies helps corporate managers to identify opportunities for corporate value generation and supports them in the formulation of higher quality corporate strategies. Furthermore, our typology can give corporate managers a unifying view on and a common terminology for cross-business issues, which may improve the successful realization of cross-business synergies.

(2) Second, this study highlights the advantages of MBFs from combining complementary resources across businesses (growth synergies). Hence, it focuses practitioners on a source of corporate value, which many managers may have neglected due to an overwhelming focus on cost subadditivities across their businesses (efficiency synergies).

(3) Finally, the detailed discussion of corporate management synergies provides a conceptual basis for value-adding corporate parenting. Corporate management synergies focus on how corporate managers can help the firm's businesses to perform at higher levels than they could if operated as independent companies. Hence, corporate managers of MBFs and managers of private equity firms may use our conceptualization of corporate management synergies to derive new ways of increasing the value of the businesses under their control. Our in-depth case study of General Electric may be particularly helpful for this purpose. It is one of the first cases that provide a detailed account of how GE's corporate managers may increase the individual performance of their diverse businesses. Consequently, the case can be a good starting point for im-

provement projects in corporate management. Furthermore, it may be a good teaching case for managerial education.

PART II: REALIZING GROWTH SYNERGIES

The second part of this dissertation contains four chapters that attempt to answer our second research question, which explores how MBFs can continuously realize growth synergies. The objective of this part is to develop a mid-range theory[50] of continuous growth synergy realization in MBFs that provides insights into the nature of the corporate effect, extends existing research on related diversification, and is close to managerial practice. Furthermore, we attempt to extend scholarly thinking beyond the efficiency-oriented view of corporate strategy, in which corporate value is achieved by pursuing cost subadditivities across businesses through resource sharing, to a growth-oriented view of corporate strategy, in which corporate value is achieved by pursuing valuable revenue superadditivities from combining resources across businesses.

Our exploration begins with *chapter 5*, which provides an in-depth review of the literature on operative synergies and points out gaps that suggest our research question. Specifically, our literature review will show that new research directions are required that directly focus on how growth synergies are continuously realized in the context of permanent cross-business collaborations.

Chapter 6 describes and justifies our empirical approach. We will explain why we employ grounded theorizing as the research method and a longitudinal single case study as the research approach for this study. Moreover, we will clarify our phenomenon under investigation as the 'continuous realization of growth synergies', the object of analysis as 'permanent cross-business collaborations within MBFs' and the unit of analysis as 'the organization'. Finally, we will describe our research design and discuss how we ensure that our research is of high quality.

In *chapter 7*, we will present strategies for achieving growth synergies, which are the result of some exploratory work. The discussion of these strategies provides a more concrete understanding of the abstract concept of growth synergies, which is helpful for the in-depth exploration of their realization in the subsequent chapters.

Chapter 8 provides an in-depth case study of the continuous realization of growth synergies at our research site, ElectroCorp. The case study gives detailed descriptions of the strategy and organizational design for synergy realization at ElectroCorp and thus permits the reader to draw her or his own conclusions and compare them with our interpretation of the data in the next chapter.

[50] Mid-range theories are composed of concepts and propositions which are close to managerial practice (cf. Merton 1968). They are less abstract, more focused, and more practically oriented than grand theories like transaction cost theory (Merton 1968).

Chapter 9 lies at the heart of this dissertation and displays the results of this study that emerged from the data. It develops a mid-range theory for the continuous realization of growth synergies. Specifically, we will explain that a strategic concept of selective focus and an organization design of decentralized collaboration contribute to the successful and continuous realization of growth synergies. Furthermore, we will discuss how these two concepts integrate into a corporate management approach of guided and balanced self-interest for the continuous realization of growth synergies.

Chapter 10 summarizes the key findings of part II. Furthermore, it discusses the theoretical and practical contributions that the empirical part of our study attempts to make. Finally, we will discuss the limitations of our study and suggest directions for future research.

5 Literature Review: Operative Synergies

The second part of this study investigates the question of how MBFs continuously realize growth synergies. In this chapter, we first provide an overview of the answers that strategic management literature provides and then point out gaps that suggest our research question.

In the first part of this thesis, we explained that growth synergies are a class of operative synergies. Thus, we focus our literature review on research that relates to operative synergies. Operative synergies, however, have not been a distinct research perspective in strategic management. Since Igor Ansoff introduced the notion of synergy into strategic management in the mid-1960s, operative synergies have been assessed *indirectly* by scholars in corporate diversification literature. Diversification literature distinguishes three types of diversification based on the amount of revenues that comes from businesses with 'common attributes' (cf. Rumelt 1974; Barney 2007): First, limited diversification, where at least 70% of firm revenue comes from a single business. Second, related diversification, where less than 70% of firm revenue comes from a single business and different businesses share common attributes. Third, unrelated diversification, where less than 70% of firm revenues come from a single business and different businesses share none or only very few common attributes. In diversification literature, operative synergies are called upon to explain the economic rationales of related diversification.

Consequently, assertions regarding operative synergies are not direct and explicit but are embedded within the complex arguments of related diversification. We thoroughly analyze diversification literature in this chapter to tease out any information on the realization of operative synergies in general and growth synergies in particular.

Based on a broad coverage of diversification literature[51], we delineated three research fields that reveal insights into operative synergies: The first field is the domain of *corporate strategy research*, which explores the strategic rationale of related diversification. This literature provides some insights into the sources of operative synergies and confirms that growth synergies do in fact exist. The second field is the domain of *corporate design research*, which investigates the organizational context factors of related diversification. This research provides some insights into the corporate design for achieving operative synergies but focuses exclusively on efficiency synergies. The third field is the domain of *corporate process research*, which examines processes of resource configuration in related diversifiers. Process literature yields some general

[51] Our review covered several sub-streams of diversification research including research (1) on the degree of diversification, (2) on the mode of diversification including mergers and acquisitions, (3) on corporate management, and on (4) corporate structures.

insights into the management of operative synergies. In the following, we first review these three literature streams (chapters 5.1 - 5.3). Subsequently, we summarize managerial insights, highlight gaps and derive our empirical research question (chapter 5.4).

5.1 Corporate Strategy Research

In this section, we review two 'strategic' literature streams in diversification research which provide some insights into the sources of operative synergies: early diversification-performance research (5.1.1) and resource-based diversification-performance research (5.1.2).

5.1.1 Early Diversification-performance research

Early diversification-performance literature examines the broad relationship between diversification of the firm and performance.[52] This literature argues that related diversifiers can benefit from potential operative synergies between their businesses. In the following, we first review the findings of diversification-performance research and then draw conclusions for the realization of operative synergies.

(1) Review

While operative synergies are a central theoretical argument in diversification-performance literature, most studies have refrained from directly measuring them. Instead, they have used relatedness proxies, which assess communalities across the value chain of businesses to determine the potential for operative synergies (Rumelt 1974).

Early research by Rumelt (1974) that builds on work by Wrigley (1970) assessed relatedness subjectively judging whether businesses of a MBF are related in some way through "*common skills, resources, market or purpose*" (Rumelt 1974: 29). In his study, Rumelt (1974) concluded that related diversifiers significantly outperformed unrelated diversifiers, suggesting that operative synergies yield benefits which are superior to that of other types of cross-business synergies. Subsequent research has engaged in further empirical tests of Rumelt's findings. In these studies, researchers have increasingly used 'objective' measures of relatedness because they are less labor intensive, easier to compare and replicate, and are not so prone to errors in judgment (Davis & Thomas 1993).

Most objective measures of relatedness are based on indexes derived from Standard Industrial Classification (SIC) codes.[53] These are four-digit numbers, published by the Office of Management and Budget of the U.S. Federal Government, which hierarchi-

[52] For an extensive overview of diversification-performance literature, please refer to Palich et al. (2000).

[53] Specific measures of relatedness include the Herfindahl index (Jacquemin & Berry, 1979), the entropy index of relatedness (Palepu 1985), or the simple count-of-industries (cf. Palich et al. 2000).

cally classify business activities by industries. The SIC codes represent the industry structure of the US-American economy. Consequently, industries are grouped according to material linkages and similarities, which rather represent production similarities than markets served or technologies used (cf. Montgomery 1982; Palepu 1985; Davis & Thomas 1993). Most SIC code-based studies assume two businesses related when they have the same two-digit SIC code (e.g., Bettis 1981; Palepu 1985; Varadarajan & Ramanujam 1987; Hill et al. 1992; Davis & Thomas 1993). The early SIC code-based diversification-performance studies of the 1980s and 1990s produced equivocal results. While some studies found evidence for the superiority of related diversification, others did not (e.g., Christensen & Montgomery 1981; Rumelt 1982; Montgomery & Singh 1984; Palepu 1985; Reed & Luffman 1986; Amit & Livnat 1988; Grant & Jammine 1988; Ramanujam & Varadarajan 1989; Simmonds 1990; Harrison et al. 1991; Lang & Stulz 1994; Berger & Ofek 1995).

To address the inconsistencies of these diversification-performance studies, scholars have pursued two avenues. The first focuses on a closer examination of the extent/degree of diversification to better differentiate the 'swollen middle' of related diversified firms. This research is based on the assumption that the relationship between diversification and performance might not be a linear one. The second avenue also concentrates on further differentiating the large group of related diversified firms. However, rather than focusing on the extent of diversification, it seeks to explore the impact of resource attributes and relationships on the performance of diversified firms. This research is based on the assumption that the exclusive focus of SIC-based relatedness measures on similarities in the production function fails to capture important sources of operative synergies (cf. Davis & Thomas 1993). We will briefly discuss the first avenue taken by researchers, the further examination of the degree of diversification, below. The second avenue, the resource-based exploration of scope economies, is reviewed in a separate section[54] as it has evolved into a distinct research stream in strategic diversification literature.

Research that further examined the impact of the degree of diversification argued that diversification has an inverted U-shaped relationship with performance. The argument goes as follows: Limited diversification is sub-optimal as it constrains the opportunity to put slack resources to productive use (e.g., Lubatkin & Chatterjee 1994). Moderately related firms do not face that limitation; they derive operative synergies from slack resources and thus increase their performance. However, as the degree of diversification increases, there is likely to be a point where the organizational costs associated with the realization of operative synergies outweigh the benefits. From this point onwards, diversification will destroy rather than add value. A meta-analysis of 82 em-

[54] This separate section is chapter 5.1.2, which is termed 'resource-based diversification-performance research'

pirical diversification studies that explored the degree of diversification by Palich et al. (2000) confirmed this inverted-U shaped relationship between the degree of diversification and performance.

(2) Conclusion

Overall, early diversification-performance research provides evidence for the superiority of (moderately) related diversification over unrelated diversification. It implies that *on average* MBFs can extract more value from operative synergies than from other types of cross-business synergies (for example financial synergies). Diversification-performance literature therefore suggests that corporate managers should focus their portfolio on a set of related (core-) businesses and advises them to concentrate on the realization of operative synergies.

Studies in traditional diversification-performance literature, however, do not provide any information at all on the realization of operative synergies. A further weakness is the use of relatedness measures derived from SIC-codes, which only capture relatedness in terms of similarities in the production function. This conceptualization of relatedness excludes potentially beneficial similarities and complementarities in other value chain functions and consequently ignores growth synergies. In conclusion, traditional diversification-performance literature does not provide any information on the continuous realization of operative synergies in general and growth synergies in particular.

5.1.2 Resource-based diversification-performance research

When researchers realized the shortcomings of SIC-based relatedness measures for assessing the diversification-performance relationship, they turned their attention towards resource-based conceptualizations of relatedness. In the following, we first review these studies and then draw conclusions for the realization of growth synergies.

(1) Review

Resource-based diversification studies focus either on the characteristics or on the relationships of resources that are valuable for diversification.

(a) Characteristics and contingencies of resources

Acknowledging that relatedness is not limited to similarities in the production function, researchers have started to explore the characteristics and contingencies of specific types of resources in diversification. For example, Markides & Williamson (1994) took a closer look at the resources that underpin performance-enhancing diversification. They argue that the focus on production similarities between businesses is too narrow and neglects similarities of other valuable resources that are beneficial for diversification. They instead propose concentrating on strategic assets to assess the

relatedness between businesses. Strategic assets are assets that "*underpin a firm's cost or differentiation advantage in a particular market and that are imperfectly imitable, imperfectly substitutable and imperfectly tradeable*" (Markides & Williamson, 1994:149). Markides and Williamson (1994) defined five types of strategic assets: (1) customer assets, such as brand recognition, customer loyalty, and installed base, (2) channel assets, such as established channel access, distributor loyalty and pipeline stock, (3) input assets, such as knowledge of imperfect factor markets, loyalty of suppliers and financial capacity, (4) process assets, such as proprietary technology, product or market-specific functional experience and organizational systems, and (5) market knowledge assets, such as accumulated information on the goals and behavior of competitors, price elasticity of demand or market response to the business cycle. According to Markides and Williamson (1994), MBFs can obtain operative synergies from strategic assets in three ways. The first way is asset utilization, which refers to the potential to leverage existing core competencies across business units. The second method is asset improvement, which refers to the potential to utilize a core competence for new strategic asset creation faster or at lower costs. The third method is asset fission, which refers to the potential to leverage new core competencies from related diversification to improve existing strategic assets in the businesses. These three methods consider core competencies as "*catalysts in the production function of strategic assets*" (Markides & Williamson 1994: 153). Consequently, the existence of strategic assets in the firm indicates that core competencies are present in the organization. In their study of 200 Fortune 500 firms, Markides & Williamson showed that a focus on the relatedness between strategic assets helps to clarify the diversification-performance relationship. Specifically, they found (1) that related diversifiers outperformed unrelated firms only when they competed across a portfolio of markets where similar types of strategic assets are important and (2) that related firms that competed in a portfolio of markets where similar types of strategic assets were important outperformed other related firms.

In conclusion, Markides and Williamson's (1994) findings suggest (1) that operative synergies are likely to exist in more value chain activities than just production, and (2) that the resource characteristics and industry context determine the strategic value that MBFs can derive from operative synergies.

Davis and Thomas (1993) conducted a further important study in this field. In their study of 45 firms in the U.S. pharmaceutical industry from 1960-1980, they explored the linkages between resources, relatedness, and synergy. To provide a more fine-grained analysis, they refrained from measuring synergies indirectly. Instead, they established a direct measure which captures synergy along multiple value-chain dimensions. In line with Markides and Williamsion (1994) – however, with stronger evidence through direct measurement – they found that synergies are not limited to production but also include activities such as marketing and research and development.

Furthermore, Davis and Thomas (1993: 1343) showed that "*patterns of synergy shift over time with the industry lifecycle*". Therefore, once related resources/activities can become unrelated and even dissynergistic over time. The authors specifically showed that the production relatedness between drugs and chemicals became dissynergistic after 1962, probably due to a maturing and more differentiated pharmaceutical industry. In contrast, they found that the relatedness between drugs and agricultural products became synergistic, which they attributed to emerging relatedness in the innovation stage of the value chain. Similarly, they found that dissynergies between drugs and healthcare prior to 1962 turned synergistic in the late 1970s.[55]

In conclusion, Davis and Thomas' (1993) findings suggest that operative synergies are not restricted to the production function and that synergistic relationships between businesses can change.

(b) Resource relationships

To delineate the valuable sources of operative synergies in diversification further, recent studies have explored the relationships *between* resources. Specifically, researchers have assessed whether complementarities between resources exist, which are valuable for diversification. Two resources are complementary if "*the profit or value created by doing both is greater than the sum of the individual profits from just doing one or the other*" (Milgrom & Roberts 1992:543). Complementary resources are not identical, but they are interdependent and mutually supportive.

Measuring operative synergies through complementarities allows capturing synergistic growth effects, which other measures of relatedness have so far neglected. As Tanriverdi and Venkatraman (2005: 100, emphasis added) explain:

> *"Resource sharing indicates that the business units are using common factors of production and achieving economies of scope: i.e., their joint production costs are less than the sum of their standalone production costs. Hence, the main type of synergy captured by 'resource relatedness' is subadditivity in production costs. The value of a multibusiness firm is a function of both sub-additive costs and* ***super-additive values of the underlying resource combinations [i.e. growth synergies]****. The 'resource relatedness' construct does not adequately capture the superadditive value of the resource combinations. The economic theory of complementarities informs us about the super-additive value of resource combinations … The returns obtained from the joint adoption of com-*

[55] Note that Davis & Thomas' (1993) observation that related resources can become dis-synergistic over time as markets change reiterates Markides & Williamson's (1994) finding that related diversifiers outperformed unrelated firms only when they compete across a portfolio of markets where similar types of strategic assets are important. If markets change over time, their key success factors are also likely to change and common strategic assets become less valuable. The costs of maintaining cross-business relationships may then outweigh the benefits from these synergies, which results in negative synergies or dis-synergies.

> *plementary resources are greater than the sum of returns obtained from the adoption of individual resources in isolation (Milgrom and Roberts, 1995). Thus, the use of a complementary set of related resources across business units can create additional, super-additive value synergies that are not captured by resource relatedness."*

In their study of 303 multi-business firms, Tanriverdi and Venkatraman (2005) showed that the exploitation of complementary knowledge resources across businesses leads to a significant market- and accounting-based corporate performance effect. Specifically, they found that cross-business synergies arising from product knowledge relatedness, customer knowledge relatedness, or managerial knowledge relatedness did not improve corporate performance on their own. However, synergies arising from complementarity of the three types of knowledge relatedness significantly improved both market- and accounting-based performance of MBFs. These findings indicate the following: First, the combination of complementary knowledge resources leads, at least partially, to valuable revenue superadditivities (growth synergies). Second, a critical mass of complementary resources may be necessary to offset organizational costs associated with synergy realization.

Similarly, Farjoun (1998) found in his study that complementarities rather than similarities lead to increased corporate performance. In his study of 158 large diversified manufacturing firms, he finds that the existence of both knowledge bases of relatedness (e.g., customer knowledge) *and* physical bases of relatedness (e.g., production plant) had a strong positive relationship with performance, while the existence of only one of the bases had a weaker and negative relationship with performance. Equally, Larsson and Finkelstein (1999) also found synergistic value from complementarities in their analysis of 61 mergers and acquisitions and concluded that complementarities rather than similarities between businesses might be the key to successful diversification.

(2) Conclusion

Overall, resource-based diversification-performance research implies that early diversification-performance studies that focus on SIC-based measures of relatedness neglect important sources of operative synergies. Findings specifically suggest the following: First, operative synergies are not limited to similarities in the production function but may also emerge from other resources and value chain activities. Second, the value of operative synergies depends on the type of resource and the existence of common key success factors across businesses. Third, operative synergies may stem not only from similarities but also from complementarities between resources and activities. Fourth, operative synergies do not only lead to cost reductions (efficiency synergies) as suggested through the definition of scope economies but also lead to valuable revenue enhancements (growth synergies). Fifth, multiple complementary resource-

relationships among businesses may be necessary to achieve operative synergies; otherwise, organizational costs may outweigh the potential synergistic benefits. Sixth, operative synergies are not static but may turn into dissynergies over time due to market and technology shifts.

These results suggest that corporate managers pursuing related diversification should build portfolios of businesses which (1) are based on common strategic assets and (2) which are related on multiple and complementary resource bases (e.g., related and complementary customer knowledge, product knowledge, and managerial knowledge). Similarly, corporate managers coordinating an existing portfolio of businesses should consider similar and complementary resources along multiple points of the value chain in their search for operative synergies. Hereby, they should focus their attention on synergies from strategic assets. Furthermore, corporate managers should not only search for cost subadditivities between their businesses (efficincy synergies) but should also consider joint growth opportunities across businesses (growth synergies). Finally, as synergistic linkages between businesses may change over time, corporate managers should (1) regularly control the value added of existing linkages, (2) review the rational of their business portfolio on a regular basis, and (3) monitor their businesses for newly emerging linkages.

In conclusion, the resource-based diversification literature makes two contributions to our research objectives: First, the literature provides first empirical evidence for the existence of growth synergies. Studies indicate that leveraging resources across the businesses of the firm can indeed lead to valuable revenue super additivities. Second, the literature suggests that the combination of complementarity rather than the sharing of similar resources leads to growth synergies. However, resource-based diversification studies do not yield any insights into the realization of growth synergies.

5.1.3 Conclusion of insights from studies in corporate strategy research

In conclusion, corporate strategy research provides persuasive arguments and empirical evidence for the existence of operative synergies. In particular, it substantiates the existence of growth synergies. However, this literature does not provide any insights into the actual realization of operative synergies.

5.2 Corporate Design Research

Organization design research argues that diversification does not have a direct relationship with performance. Rather, it assumes that organization design is a moderating variable between diversification and performance (cf. Hill 1994) and investigates specific organizational arrangements. Corporate design research may also provide insights into the realization of operative synergies for the following reason: Operative synergies are the economic rationale for the above average performance of related diversifi-

ers (e.g., Wrigley 1970; Rumelt 1974; Palich et al. 2000). Consequently, organizational designs that moderate the relationship between related diversification and performance should be designs that contribute to the realization of operative synergies.

Two research streams in diversification literature implicitly or explicitly address the role of organization design in diversified MBFs. The first stream, organizational context research, explores the organizational contingencies of diversification strategies. The second stream, corporate center research, explores the role of the corporate center in diversified firms.

5.2.1 Organizational Context Research

Organizational context research explores the context that corporate managers of MBFs shape to guide firm decisions across businesses (cf. Bower 1970; Burgelman 1983a/b; Collis & Montgomery 2005). The organizational context includes a wide array of organizational elements such as organization structure, strategic planning and control systems, human resources management, and organizational culture (e.g., Collis & Montgomery 2005).

Studies that establish contingencies between certain organizational contexts and related diversification may provide insights into the realization of operative synergies. We found such studies in two literature streams: First, some research on *mergers and acquisitions (M&A)* has explored the influence of organizational factors on the post-acquisition performance of related acquisitions. As related acquisitions derive their value from operative synergies (e.g., Datta 1991), these studies may also reveal information on the realization of growth synergies. Second, *corporate strategy-structure research* has directly explored the contingencies between the structural context of MBFs and a corporate strategy of related diversification.

(1) Review

In the following, we first review the studies in M&A literature and then the studies in corporate strategy-structure literature.

(a) Studies in M&A literature

Several studies of mergers and acquisitions have found a positive and significant relationship between the *similarity of top management styles* and post-acquisition performance (Diven 1984; Marks 1982; Buono & Bowditch 1989; Walter 1985; Datta 1991; Chatterjee et al. 1992). In these studies, management style is defined as the management's attitude towards risk taking, their decision-making approach, their preferred control and communication patterns, and their emphasis on authority and structure (Khandwalla 1977; Datta 1991).

Likewise, in their investigation of 61 mergers and acquisitions, Larsson & Finkelstein (1999) discovered that *similar organizational contexts* conceptualized through *similar human resource practices and similar management styles* positively influenced the realization of operative synergies.

Other studies have found that *compatible cultures and core values* between merging firms have a significant positive effect on post-acquisition performance (e.g., Sales & Mirvis 1984; Walter 1985; Nahavandi & Malekzadeh 1988; Buono & Bowditch 1989; Chatterjee et al. 1992; Cartwright & Cooper 1992; Greenwood et al. 1994; Forstmann 1998). Conversely, as Vermeulen and Barkema (2001) find in a recent study, diversity and cultural distance have a negative effect on realizing benefits from acquisitions. Their findings confirm earlier studies (e.g., Sales & Mirvis, 1984; Walter, 1985; Buono & Bowditch, 1989).

Moreover, studies strongly suggest that the realization of operative synergies requires a certain level of *organizational integration*, i.e. interaction and coordination between the merging firms (e.g., Diven 1984; Marks 1982; Buono & Bowditch 1989; Walter, 1985; Chatterjee et al. 1992; Datta 1991; Haspeslagh & Jemison 1991).

In summary, mergers and acquisition studies suggest that the realization of operative synergies requires similar organizational contexts (especially similar management systems) in addition to resource relatedness. Furthermore, they imply that the realization of operative synergies calls for organizational integration that facilitates coordination. As all reviewed studies are based on narrow SIC-based measures of relatedness, these suggestions have only been substantiated for efficiency synergies in the production function. It is not clear whether they also apply to growth synergies.

(b) Studies in strategy-structure literature

In accordance with M&A literature, a few studies in strategy-structure literature also imply that the realization of operative synergies may require specific organizational designs.

The investigation of organizational contingencies in diversification literature began with Chandler's (1962) seminal study on the administrative responses of Du Pont, General Motors, Sears, and Standard Oil to the rising information processing requirements of extensive product-market diversification. Chandler's work culminated in the conceptualization of the M-form organization, which has been confirmed in subsequent empirical studies (e.g., Armour & Teece 1978). Over time, almost all diversified firms have adopted the M-form structure, regardless of their diversification strategy (cf. Pedersen & Thomsen 1997; Fliegstein 2001; Villalonga 2004). However, researchers realized that the high-level construct 'M-form' is an umbrella for numerous organizational arrangements that differ in important ways (e.g., Allen 1978; Hill & Hoskisson 1987). For instance, Raynor (2000a) summarizes that M-form structures

differ on three dimensions: The first dimension, degree of functional completeness, assesses whether all the divisions contain all the functions needed to prosecute their product-market strategies. The second dimension, nature of interdivisional relationships, assesses whether divisions deal with each other via quasi-market mechanisms or via other forms of interdivisional relationships such as hierarchy, personal cross-divisional networks or corporate managers. The third dimension, degree of divisional decision-making autonomy, assesses the extent of corporate intervention in division level strategic or operational issues. Consequently, researchers began to examine differences in the M-form contingent on the diversification strategy that the firm pursues (related/unrelated diversification).

Early clinical work by Wrigley (1970) suggests that there are indeed structural differences between related and unrelated diversifiers. More specifically, Rumelt (1970) showed that while related diversifiers use highly centralized decision-making, unrelated diversifiers grant their businesses high levels of autonomy.

Hill et al. (1992) further Wrigley's and Rumelt's early work by exploring organizational contingencies of related and unrelated diversification in their study of 184 diversified Fortune 1000 firms. They hypothesize that high performance is associated with a fit between diversification strategy, organization structure, and control systems. Their empirical results confirm their initial hypothesis and suggest that unrelated diversifiers should implement competitive organizational arrangements while related diversifiers should implement cooperative organization arrangements. Specifically, they show that related diversifiers perform better if their arrangements stress cooperation between their businesses. Cooperative arrangements comprise greater centralization, the use of integration mechanisms, greater reliance on subjective non-financial controls (e.g., ability to innovate, degree of cooperation among interdependent divisions), objective non-financial controls (e.g., labor productivity, capacity utilization, market share, and growth), and group level incentives (Hill et al. 1992). The authors used a narrow SIC-based measure of diversification (entropy measure) in their study to assess the level of diversification, which means that they predominantly capture cost subadditivities in the production function and neglect growth synergies. Thus, it is purely speculative to assume that their findings also apply to the realization of growth synergies.

Similarly, St. John and Harrison (1999) found in a comparative case study of 13 manufacturing companies that higher performing MBFs foster the realization of efficiency synergies through cooperative administrative mechanisms such as joint planning processes, task forces, and corporate-level incentives.

While the previous studies empirically explore structural contingencies of related diversifiers, organization theory makes some theoretical suggestions, which we deem worthwhile reviewing here even though they have not been empirically confirmed. Organizational theorists argue that the realization of benefits from related diversifica-

tion requires resource sharing and thus leads to reciprocal interdependencies between divisions (Thompson 1967). These reciprocal task interdependencies, so the argument, require increased demands of coordination and decision-making capacity (cf. Thompson 1967; Galbraith 1972, 1973; McCann & Ferry 1979; McCann & Galbraith 1981), which is best addressed through complex lateral coordination mechanisms (cf. Lawrence & Lorsch 1967; Galbraith 1994, 2005).

Specifically, Galbraith (1994) suggests that MBFs that pursue a strategy of related diversification require higher levels of lateral coordination than MBFs that pursue strategies of unrelated diversification. Furthermore, he proposes that the sophistication and complexity of lateral coordination mechanisms increases with lower levels of diversity of the businesses in the portfolio. Galbraith provides tangible definitions for different lateral coordination mechanisms, which we summarize in figure 5-1 below. From the top to the bottom of the table, the sophistication and complexity of the lateral coordination mechanisms increases with the 'matrix organization' as the most sophisticated and expensive form of lateral coordination. According to Galbraith (1994), the different coordination mechanisms are additive.

Figure 5-1: Mechanisms for lateral coordination

Lateral Coordination Mechanism	Description/Characteristics
Voluntary Organization / Informal networks	▪ Informal cross-business exchange ▪ Formed at the initiation of those comprising it ▪ Managers perceive the situation and spontaneously communicate to resolve the issue; top management may be informed but is not directly involved ▪ Least expensive
Formal Groups (boards, councils, teams)	▪ Formal groups created by top management to facilitate lateral coordination between businesses ▪ Many forms possible from simple to multi-dimensional and hierarchical ▪ More expensive, require more management time and effort to maintain

(Figure is continued on next page)

Figure 5-1 continued: Mechanisms for lateral coordination

Lateral Coordination Mechanism	Description/Characteristics
Integrators (project managers, program managers, business managers, integrating departments)	▪ Full-time leaders of lateral groups ▪ 'Little general managers' managing a portion of the general manager's accountabilities ▪ No formal authority; the authority resides in the line organization ▪ Even more expansive than formal groups due to additional full-time resource and due to the potential conflict the position generates
Matrix Organization	▪ Organizational integration units with profit and loss responsibility ▪ Unit is equal partner in the decision-making process of the other organizational dimensions (e.g., product business units and regional units) ▪ Most expensive form of lateral coordination due to highest level of full-time resources and highest conflict potential

Source: Galbraith (1994, 2005)

In summary, empirical studies and organization theories in strategy-structure research suggest that the realization of operative synergies requires cooperative organizational designs, which are characterized through greater centralization of authority, non-financial controls, corporate-level incentives, and the use of strong integration mechanisms. These suggestions, however, have only been empirically substantiated for efficiency synergies. Thus, current strategy-structure research does not suggest any organizational designs for the realization of growth synergies.

(2) Conclusion

Overall, organizational context research implicates that relatedness between businesses of an MBF is a necessary but not sufficient condition to derive value from operative synergies and points to the importance of the organizational context in synergy realization.

Focusing exclusively on efficiency synergies, 'statistically firm' findings suggest the following: First, the realization of efficiency synergies requires similar organizational contexts (especially similar management styles, human resource practices, and cultures). Second, the realization of efficiency synergies is improved through collaborative designs that consist of high levels of centralization, non-financial controls, corporate-level incentives and the use of integration mechanisms.

From these findings, we can derive some general advice for corporate managers: First, when building a portfolio of related businesses, managers should consider the organ-

izational fit of management systems in addition to relatedness in resources and activities. Second, corporate managers who aim to realize efficiency synergies should implement cooperative organizational arrangements.

In conclusion, while this literature provides some insights into organization designs that may be advantageous for realizing efficiency synergies, it utterly neglects organization designs for realizing growth synergies.

5.2.2 Role of the Corporate Center

A distinct stream in organization design research explores the role of the corporate center in MBFs (e.g., Goold & Campbell 1987; Goold et al. 1994; Goold & Campbell 98, 2002; Foss 1997; Collis & Montgomery 2005; Markides 2002; Whittington 2002; Collis et al. 2007). The corporate center is a corporate hierarchy of line managers, functions, and staff outside the operative businesses of a MBF (Goold et al. 1994; Foss 1997; Collis et al. 2007). In the following, we first review corporate center research that refers to operative synergies and then draw conclusions.

(1) Review

According to the literature, the corporate center plays an active role in the exploitation of operative synergies by designing an appropriate organizational context and promoting cross-business collaboration (Bower 1970; Galbraith 1977; Kerr 1985; Gupta & Govindarajan 1986; Goold & Campbell 1987; Hill & Hoskisson 1987; Porter 1987; Hill 1988; Hill et al. 1992; Campbell et al. 1995; Ghoshal & Bartlett 1995; Collis & Montgomery 2005; Markides 2002).

However, even though scholars assign great importance to the role of the corporate center only very few studies have actually explored corporate center activities. One study that provides at least some evidence is Goold and Campbell's (1987) qualitative study of corporate control modes. Assuming that a distinct task of most corporate centers is the control of the businesses in their portfolio, Goold and Campbell explore different corporate control styles, which they term 'parenting styles', through clinical studies of a number of large MBFs such as BP, Cadbury Schweppes, 3M, GE, BTR, and Hanson. They identified three distinct parenting styles, which differ in the two dimensions 'planning influence' and 'control influence'. *Planning influence* refers to the extent of the corporate center's involvement in the formulation of plans, strategies, and budgets in the company's various businesses. *Control influence* represents the degree of importance that the corporate center attaches to the achievement of each business's financial target. In the following, we briefly discuss the three parenting styles including further reflections by Chandler (1991):

- *Financial Control*: In the financial control mode, the corporate center is not involved in the strategy development process of the businesses. Instead, the center

focuses on setting and controlling financial targets. Different businesses in the company are encouraged to deal with each other as if they were independent entities, working together only if they see mutual benefits. Strategic companies are frequently conglomerates with unrelated businesses that only have very limited potential for operative synergies (Chandler 1991).

- *Strategic planning*: In the strategic planning mode, the corporate center is closely involved in the strategy development process and in performance monitoring of the individual businesses. The corporate center encourages cross-business collaboration and creates a strong sense of shared purpose throughout the organization. Incentives are equally based on individual business performance and corporate outcomes. Administrative controls are employed comparably flexible (Chandler 1991). Strategic planning companies "*are the least diversified, operate the smallest number of businesses, have the highest linkages between divisions and the highest overlap between business units within divisions*" (Chandler 1991: 36, 38).
- *Strategic Control*: In the strategic control mode, corporate center involvement in business-affairs is lower and financial controls are tighter. Cross-business linkages for the realization of operative synergies are suggested but not imposed. The major focus of the corporate center is on reviewing and monitoring business unit strategies, operating plans and finances, and giving support to senior managers. As Chandler (1991:38) observed: "*Strategic control companies operate more businesses, have fewer overlaps between the divisions and on the whole have less synergy between the business units*".

Goold & Campbell (1987) do not recommend one corporate control mode over the other for managing operative synergies. However, as discussed, Chandler's (1991) continuing observations imply that the degree of relatedness influences the control style and that higher degrees of relatedness require higher levels of involvement of the corporate center in business-level planning and cross-business coordination. Without any explicitly measured performance implications, this suggests the following: First, the realization of operative synergies requires active corporate center involvement. Second, the realization of operative synergies calls for more flexible financial controls and higher degrees of centralization in the planning process. While done from a different perspective, these findings are consistent with Hill et al.'s (1992) call for cooperative arrangements of related diversifiers.[56]

Recognizing the importance of synergy management, the authors conducted a follow-up study that specifically focuses on the role of the corporate center in synergy realization. In this study, Goold and Campbell (1998) found illustrative evidence (without

[56] In fact, Campbell and Goold's two parenting styles, strategic planning and corporate control, can be viewed as more fine-grained definitions of Hill et al.'s (1992) cooperative organizational arrangements.

further specifying their method of investigation) for the fact that managerial biases of corporate managers can often lead the corporate center to overestimate potential synergies or the ease of its implementation. Specifically, Goold and Campbell (1998) identified four synergy biases:

- *Synergy bias*: The synergy bias stems from the perceived need of corporate managers to justify the existence of their corporation to the capital market. Because the realization of operative synergies is increasingly demanded by investors, many corporate executives frequently engage in 'wishful thinking' and see valuable synergies where there are none. This then obviously leads to failing synergy projects (see also: Eisenhardt & Galunic 2000).
- *Parenting bias*: The parenting bias leads managers to assume that their involvement is necessary in order to realize synergies between the different businesses. Corporate managers thus frequently force reluctant business unit managers to collaborate and thereby ignore that they might have good business reasons for not cooperating.
- *Skill bias*: The skill bias lets corporate managers assume that they have the skills to intervene effectively. However, frequently they lack the necessary operating knowledge, personal relationships or facilitative skills for managing operative synergies. The skill bias leads to corporate managers ignoring that business unit managers usually know their specific markets and business-level capabilities better than corporate executives do.
- *Upside bias*: Many managers are simply too enthusiastic; they suffer from the upside bias. Their enthusiasm blinds them towards the negative side effects of synergy programs such as reduced flexibility, employee dissatisfaction, unclear incentive systems, and the distortion of strategic thinking of business-level managers. Their eagerness leads corporate managers to "*overestimate the benefits of collaboration and underestimate its costs*" (Eisenhardt & Galunic 2000:98).

Due to these biases, Goold & Campbell (1998) suggest that it is the role of the corporate center to carefully analyze potential operative synergies and to selectively intervene when they sense clear 'parenting opportunities'. They identify four such parenting opportunities:

- *Perception opportunities*: Perception opportunities exist when businesses are not aware of valuable synergy potential. Perception opportunities refer to the information and overview advantage of the corporate center, which has been pointed out by prior research (e.g., Andrews 1980; Ansoff 1965; Chandler 1991; Collis & Montgomery 2005; Hill et al. 1992).
- *Evaluation opportunities:* Evaluation opportunities arise when businesses do not correctly assess the costs and benefits of synergies. This may be the case, for ex-

ample, when they lack the necessary evaluation skills or the required information.

- *Motivation Opportunities:* Motivation opportunities are due to the lack of motivation of the businesses to engage in collaboration. Reasons for such a behavior may be unsuitable measurement and reward systems or troubled interpersonal relations.
- *Implementation opportunities:* Implementation opportunities exist when business unit managers are committed to a synergy initiative but lack the resources or skills to implement it.

Without any explicitly measured performance implications, these findings suggest that successful realization of operative synergies requires the ability of the corporate center to identify 'parenting opportunities' and to act upon them.

(2) Conclusion

Overall, this literature implies that the corporate center (i.e. corporate management) plays an important role in the realization of operative synergies. Specifically, the literature suggests the following: First, the corporate center has a strong influence on the realization of operative synergies. Second, the realization of operative synergies calls for higher degrees of corporate involvement in the formulation of business-level formulation of plans, strategies, and budgets. This involvement is equivalent to higher levels of centralization in decision-making in organization context research. Third, to prevent harmful over-involvement, however, the corporate center needs to limit its business-level interventions to viable 'parenting opportunities'. Fourth, the realization of operative synergies requires financial controls that are more flexible about short-term financial targets.

Consequently, this literature advises corporate managers to relax short-term financial controls and to become involved in strategic business-issues. However, at the same time it cautions managers not to be blinded by 'synergy biases' and become over-involved.

In conclusion, corporate center literature provides some insights into the role of corporate management in synergy realization. However, the research lacks methodological rigor (cf. Markides 2002). It is largely anecdotal and does not link corporate center activities to results (performance). Furthermore, corporate center literature neither assesses the management of cross-business synergies directly nor differentiates between efficiency and growth synergies. Thus, we cannot derive any reliable insights for the realization of growth synergies from this literature.

5.2.3 Conclusion of insights from corporate design research

Studies in corporate design research provide some information on the realization of operative synergies. However, they are indirect in that they observe outcomes of related diversification and then assume that operative synergies must exist. Consequently, insights on synergy realization derived from these studies are highly speculative. Furthermore, empirical studies use measures derived from SIC-codes to measure the degree of relatedness within corporations. These measures primarily capture relatedness in terms of similarities in the production functions of businesses. Consequently, corporate design studies neglect complementarities and thus do not provide any reliable information for the realization of growth synergies.

5.3 Corporate Process Research

Grounded in the thinking on 'dynamic capabilities' (cf. Eisenhardt & Martin 2000), researchers have recently started to explore the corporate processes by which MBFs align their organizations to realize synergies. Specifically, this literature stream refers to what Martin (2002: 48) terms processes of resource recombination and defines as "*(...) the strategic processes by which the resources of a multi-business firm are recombined to capture corporate value*". Consequently, this literature should contribute to our understanding of the realization of growth synergies. Four corporate-level processes of resource recombination have been suggested in strategic management literature: cross-business knowledge and resource transfer (5.3.1), patching (5.3.2), coevolving (5.3.3), and cross-business synergy initiatives (5.3.4).

5.3.1 Cross-business knowledge and resource transfer

Cross-business knowledge and resource transfer are the processes by which knowledge – or more generally, resources – are moved across businesses within an existing organizational structure (cf. Probst et al. 2000; Martin 2002; Leibold, Probst & Gibbert 2002).

The literature attributes the success of knowledge and resource transfer to three major groups of factors: (1) the characteristics of the transferred knowledge, (2) the sender and recipient and their relationship, and (3) the organizational setup.

Knowledge characteristics and the *characteristics of sender and recipient* influence transfer speed and transfer success. For example, in a study of 44 major innovations of Swedish companies Zander and Kogut (1995) found that the degree of codification and the observability of knowledge have a positive influence and that the complexity of the knowledge has a negative effect on transfer speed. Similarly, in their study of 75 multi-national firms, Gupta & Govindarajan (2000) found that inflows of tacit knowl-

edge were positively correlated with subsidiaries' absorptive capacity.[57] The results of a further study by Szulanski (1996) on the difficulties in transferring best practices in eight firms are consistent with these findings. Szulanski found that major barriers to knowledge transfer were causal ambiguity and a lack of absorptive capacity. In a recent study of 69 firms in 15 industries, Cummings and Teng (2003) find that transfer success increases with decreased (1) knowledge embeddedness, (2) knowledge distance, (3) norm distance between source and recipient, and with (4) increased articulability of knowledge.

Besides knowledge and source/recipient characteristics, *organizational factors* have shown to significantly influence knowledge transfer success. In a study of 120 new product development projects in 41 business units in a large electronics company, Hansen (1999) finds that weak links help a project team to quickly search for useful knowledge in other subunits. Furthermore, his results suggest that weak inter-unit ties are more suitable for knowledge transfer (transfer speed) than strong ties if knowledge is not complex (i.e. not tacit). If complex knowledge is transferred, however, strong inter-unit ties are required. Similarly, Bresnan et al. (1999) found in their study of 42 international acquisitions involving knowledge transfer that tacit knowledge is best transferred through intensive communication, with many visits and meetings and that articulated knowledge (e.g., patents) can be made available to the other party with little personal interaction. Consistent with these studies, Gupta and Govindarajan (2000) found that a greater use of formal administrative mechanisms for lateral coordination (e.g., liaison personnel, task forces, permanent teams) was positively associated with the ability of multi-national companies to transfer tacit knowledge among the subsidiaries and the corporate office. Hansen (2002) extends this 'structural perspective' on knowledge transfer through his study of knowledge sharing of 120 new product development projects in 41 business units of a large multiunit company. He found that project teams with short inter-unit network paths to units that possess related knowledge obtain more existing knowledge from other units and complete their projects faster. Furthermore, he showed that established direct relations mitigated problems of transferring non-codified knowledge but were harmful when the knowledge to be transferred was codified because they were less needed but still involved maintenance costs. Tsai (2002) further explored the coordination issue in knowledge sharing. In his in-depth case study of a large, multiunit petrochemical company, he assessed how a multiunit organization can coordinate its units to encourage them to share knowledge with their competitors inside the organization. His study yields two major insights: First, he finds that formal hierarchical structure, in the form of centralization, has a significant negative effect on knowledge sharing. Second, he discovers that informal

[57] Absorptive capacity is the firm's ability "to recognize the value of new, external knowledge, assimilate it, and apply it to commercial ends" (Cohen & Levinthal 1990: 128).

lateral relations, in the form of social interactions, have a significant positive effect on knowledge sharing among units that compete with each other for market share, but not among units that compete with each other for internal resources.

In summary, we derive the following insights regarding the realization of growth synergies from this literature, assuming that growth synergies are based on knowledge resources: First, chances are higher to derive growth synergies from explicit knowledge than from tacit knowledge. Second, the realization of growth synergies from tacit knowledge requires strong ties, direct relations, intensive communication, and formal administrative mechanisms. Third, growth synergies based on explicit knowledge should be realized with little personal interaction to keep transaction costs low.

Consequently, corporate managers are advised to align their organization designs for realizing synergies from knowledge resources with the type of knowledge transferred.

In conclusion, knowledge transfer literature improves our understanding of the realization of growth synergies from knowledge resources. However, a major weakness of this research is its abstract nature. The discussion of 'tacit' and 'explicit' knowledge flows is too generic and does not provide tangible insights into the realization of growth synergies.

5.3.2 Patching

Patching is the process of recombining complete business units to exploit the shifting sources of operative synergies that emerge from changing market opportunities (Eisenhardt & Brown 1999). Patching matches corporate structure with changing market opportunities to realize operative synergies (Eisenhardt & Brown 1999). The process involves activities such as "*adding, splitting, transferring, exiting, or combining parts of businesses*" (Eisenhardt & Brown 1999:74). Patching is achieved through frequent small structural changes (Galunic & Eisenhardt 1996, 2001).

Based on an in-depth case study in the high-tech industry, Eisenhardt and Brown (1996) derived distinct organization features of patching companies: Patching companies see structure as temporary and view frequent restructuring as part of their usual business operation. The size of the businesses units is rather small. The units are designed to be small enough for agility and large enough for efficiency (i.e. they are at least as big as the minimum efficient scale in the industry). Moreover, the business units are modular, discrete, focused, and rather autonomous. In other words, business unit structure is 'simple' rather than 'complex' to facilitate a fast patching process. Furthermore, companies that engage in patching usually portray high levels of internal competition. Their business units continuously compete for market charters, the right to work specific markets. Patching companies are careful to have compensation parity across their businesses so that they can easily move employees from one business to

another. Finally, they employ sophisticated market intelligence and reporting systems that provide information on when and how to patch.

In summary, patching suggests the following: First, the realization of operative synergies in high-velocity environments requires frequent changes in the primary structure of MBFs. Second, simple structures (loose coupling) and high levels of internal competition for the 'right' to serve a specific market facilitate these changes.

The insights from patching advise corporate managers operating in dynamic environments (1) to keep their organizational structures simple, modular and competitive and (2) to align their corporate structure through frequent small changes with the market and emerging synergy opportunities.

Patching provides an appealing meta-concept for realizing operative synergies in dynamic markets. However, patching suffers from several limitations: First, patching is theoretically immature and solely based on anecdotal evidence. Second, the concept does not differentiate between growth and efficiency synergies. If two modular businesses are patched to capture emerging market opportunities, this may involve the sharing of a production plant (efficiency synergies) but also the combination of product components into integrated solutions (growth synergies). Third, the concept is too unspecific to generate specific insights into synergy realization. Fourth, patching appears to be a concept for corporate restructuring (change of primary company structure) in highly dynamic markets rather than a general concept for the continuous realization of *cross-business* synergies. It seems unlikely, for instance, that MBFs aiming to achieve growth synergies from an integrated solution will continuously redefine their primary business structures.

5.3.3 Coevolving

Coevolving is the process of changing the collaborative linkages among business units to take advantage of operative synergies (Eisenhardt & Galunic 2000). A popular example of a coevolving company is Disney (Eisenhardt & Galunic 2000). Disney's managers chose different business unit collaborations for different films. Over time, they continuously terminate old linkages and generate new ones based on their specific demand. Another example is Eisenhardt and Galunic's (2000) in-depth case study of OfficeSys (a pseudonym for a Fortune 100 high tech company). During OfficeSys' evolution from two to four related businesses (fax, photocopier, optical scanning, and data transfer), the company changed its cross-business linkages from sharing production activities to exchanging new product development knowledge to joint advertising in order to promote an umbrella brand. Business unit linkages were continuously changed in order to take advantage of new synergy opportunities. If a link was not valuable anymore, it was discontinued.

Eisenhardt and Galunic (2000) argue that coevolving companies portray distinct organizational features: Collaboration in these companies is driven and executed by business units; the role of the corporate center is limited to setting the collaborative context rather than initiating and driving specific synergy initiatives. Managerial incentives focus on individual business unit performance, not on corporate performance. Collaboration and competition between business units are permitted to coexist as internal competition is seen as a strong source of innovation (resulting from alternative technologies, business models, and distribution channels, etc.). In coevolving companies, well functioning business systems are important to support frequent data-focused meetings among business unit leaders, which are necessary to keep managers updated on emerging synergy opportunities.

In summary, coevolving suggests the following: First, the realization of operative synergies requires active management of cross-business links. Second, the businesses and not the corporate center should drive and execute the management of operative synergies. In other words, the decision to form cross-business linkages ought to be decentralized to the businesses – collaboration should be guided by 'enlightened self-interest' of the businesses and not by 'selective intervention' of the corporate center. Third, internal competition between businesses and high-powered business-level incentives improve efficient synergy realization.

Studies on coevolving recommend corporate managers of firms operating in dynamic environments to limit their involvement in the management of operative synergies to set a corporate context that facilitates the formation and termination of cross-business links. Specifically, corporate managers should create a collaborative corporate context with decentralized decision-making and high-powered business-level incentives.

Coevolving provides an appealing meta-concept for realizing operative synergies in dynamic markets. However, it suffers from two limitations: First, coevolving is theoretically immature and solely based on anecdotal evidence. Second, the concept is too abstract to provide meaningful insights into the realization of growth synergies. The fact that collaborative links between businesses are continuously changed to capture emerging synergy opportunities does not provide much information on synergy realization – specifically, as these links are also be utilized to realize efficiency synergies (e.g., to share production between businesses).

5.3.4 Cross-business synergy initiatives

Cross-business synergy initiatives extend and complement the studies of patching and coevolving. Cross-business synergies are temporary collaborations across business units that capture corporate value in dynamic markets (Martin 2002). In a recent inductive study, Martin (2002) explored 12 cross-business synergy initiatives in six MBFs operating in the highly dynamic software industry. His findings suggested the follow-

ing: First, high performing cross-business synergy initiatives originate from the business units and not from the corporate center. Second, high-performing cross-business synergy initiatives are based on experimentation and do not solely rely on corporate planning. Third, they are characterized by high involvement of the business unit heads in the decision-making process to pursue synergies (multi-business team decisions). Fourth, they are characterized by a decision-making process that involves a high degree of debate on the means of implementation and eventually leads to high agreement among business managers on carrying out the initiative. Finally, high-performing cross-business synergy initiatives portray what Martin (2002) terms strong organization implementation and defines as significant realignment of resources, modularity, and loose coupling. Modularity refers to the existence of a dedicated core initiative team that works full-time on the initiative. Loose coupling means that only a few (3-5) simple coordination mechanisms are employed for handling interdependencies with teams outside the initiative.

In summary, focusing on initiatives, Martin's (2002) study provides a more socialized view of synergy realization. His results suggest a very limited role of the corporate center in synergy realization, advocates consensual decision making among business unit heads, and recommends dedicated full-time teams that are loosely coupled with the remaining organization.

Martin's study advises corporate managers not to intervene in synergy realization. According to his research, corporate managers should limit their involvement in synergy realization to developing the team of general managers and to promoting engaged multi-business team decisions.

Martin's study provides detailed insights into the realization of cross-business synergies in highly dynamic markets. It advances the concept of coevolving from an initiative perspective. However, his study does not sufficiently explain the continuous realization of growth synergies: First, his study does not differentiate different types of cross-business synergies (growth vs. efficiency synergies), which makes any inferences on the realization of growth synergies speculative. Second, the study is limited to firms operating in highly dynamic markets and focuses on the *temporary* rather than the *continuous* realization of cross-business synergies. Martin (2002: 136) specifically addresses this issue when he discusses the boundary conditions of his research:

> *"I focused on temporary collaborations among businesses, which I describe as 'cross-business initiatives', rather than on relatively permanent collaborations among business units such as sharing manufacturing or the sales organization. In more stable markets, more permanent types of collaborations may be more crucial to achieve corporate value … It would clearly be useful to examine how synergies are realized in industries where pace is slower."*

Finally, except for decision-making structures, Martin's (2002) study does not provide any information on organizational arrangements for synergy realization (e.g., strategic concepts, incentives, controls, culture, and integration mechanisms), probably because his focus on cross-business initiatives (unit of analysis) was too narrow.

5.3.5 Conclusion of insights from corporate process research

Studies in corporate process research provide some information on the realization of operative synergies. However, they are too abstract and/or theoretically and empirically immature to provide meaningful insights into synergy realization. Their observations that cross-business synergies can be achieved by transferring knowledge, redefining business unit boundaries (patching) and changing linkages between businesses (coevolving) are too high-level to be illuminative. An exception is Martin's (2002) qualitative study on cross-business synergy initiatives. However, his study does not distinguish between different types of cross-business synergies and exclusively focuses on temporary cross-business collaborations in companies that operate in highly dynamic markets. Consequently, his study does not provide any reliable information on more stable collaborations between business units and on the realization of growth synergies.

5.4 Summary and Discussion

This section draws overall conclusions from our review of the literature relating to operating synergies. We first summarize the managerial insights from the existing literature. Then, we discuss research gaps and derive specific research questions that address these gaps and guide our empirical exploration.

5.4.1 Managerial insights

Our comprehensive literature review yielded managerial insights into operative synergies in three fields. It provided information on (1) the nature and sources of operative synergies, (2) the organization designs for the realization of operative synergies, and (3) the processes for the realization of operative synergies. We proceed by summarizing these insights.

(1) Sources and nature of operative synergies

From strategy literature in diversification theory, we can derive the following managerial insights regarding the nature and sources of operative synergies: First, operative synergies can emerge from several value chain activities and resources across businesses and are not limited to the production function. Second, operative synergies may not only stem from cost subadditivities from sharing similar resources (efficiency synergies) but also from valuable revenue superadditivities from combining complementary resources (growth synergies). Third, operative synergies are only strategically

valuable when they are based on assets that underpin a cost or differentiation advantage in a particular market and when they are imperfectly imitable, imperfectly substitutable and imperfectly tradable (strategic assets). Fourth, multiple complementary resource-relationships among businesses may be necessary to achieve operative synergies; otherwise, organizational costs may outweigh the potential synergistic benefits. Fifth, operative synergies are not static but may turn into dissynergies over time due to market and technology shifts.

In aggregation, these findings suggest that corporate managers pursuing operative synergies should:

- Scan multiple types of similar and complementary resources and value chain activities across businesses,
- prefer the realization of synergy initiatives that are based on strategic assets and/or leverage multiple complementary resource relationships so that benefits outweigh costs,
- regularly control the value added of existing cross-business linkages to detect and terminate dissynergistic ones, and
- regularly scan for newly emerging synergy opportunities between their businesses.

(2) Organization design for the realization of operative synergies

Studies exploring the organization design of related diversifiers have exclusively relied on SIC-based measures of relatedness. Thus, we can only derive managerial insights regarding the realization of efficiency synergies from this literature. Organization design literature assigns great importance to the organization context for the realization of efficiency synergies. Specifically, it suggests the following: First, corporate managers should install similar management systems and human resource practices across businesses. Second, they should establish collaborative organizational designs with high levels of centralization, non-financial controls, corporate-level incentives, and the use of integration mechanisms. Third, corporate managers should relax short-term financial controls and become involved in strategic business-level issues. In doing so, however, they should focus on concrete parenting opportunities and make sure that they are not blinded by ‘synergy biases’ and become over-involved.

(3) Process for synergy realization

Grounded in the thinking on dynamic capabilities, process studies provide high-level insights into the alignment of MBFs for realizing cross-business synergies. From this literature we can derive the following rather generic insights into the realization of operative synergies: First, operative synergies can be realized by knowledge transfer, change of business unit boundaries (patching), change of collaborative cross-business

links (coevolving), and temporary collaboration in cross-business initiatives. Second, such processes are especially important in dynamic environments where sources for operative synergies are frequently changing between businesses. Third, successful management of these processes requires engaged decision making by business unit heads, experimentation, and dedicated core initiative teams that are loosely coupled with the line organization.

In conclusion, these findings suggest that corporate managers pursuing operative synergies should:

- Consider knowledge/resource transfer processes, business unit redefinition, linkage formation, and cross-business initiatives for the temporary realization of operative synergies,
- involve business unit heads in the decision process,
- foster experimentation, and
- ensure that full-time resources are on the core initiative team.

5.4.2 Gap and research question

Our review of literature provided persuasive evidence for the existence of operative synergies. While most research focuses on operative synergies from cost subadditivities (e.g., Montgomery & Singh 1984; Palepu 1985; Markides & Williamson 1994), recent diversification-performance research suggests that MBFs may derive operative synergies from revenue super-additivities (e.g., Farjoun 1998; Tanriverdi & Venkatraman 2005). These kinds of operative synergies, which we term growth synergies, seem to be based on the combination of complementary resources rather than on the contemporaneous sharing of similar resources (Tanriverdi & Venkatraman 2005). Growth synergies are specifically interesting because they are a likely source of competitive advantage as they are based on interconnected asset stocks (Tanriverdi & Venkatraman 2005) which are difficult to imitate (cf. Dirickx & Cool 1989).

However, research on the realization of operative synergies in general and on growth synergies in particular is theoretically and empirically immature. *Corporate strategy research* does not provide any insights into synergy realization at all. Studies in *corporate design research* are indirect in that they observe outcomes of related diversification and then assume that operative synergies must exist. Consequently, insights on synergy realization derived from these studies are highly speculative. Furthermore, studies on corporate design use measures derived from SIC-codes to measure the degree of relatedness within corporations. These measures primarily capture relatedness in terms of similarities in the production functions of businesses. Therefore, corporate design studies neglect complementarities and thus do not provide any information on

the realization of growth synergies. Studies in *corporate process research* are mostly too abstract and/or theoretically and empirically immature to provide meaningful insights into synergy realization. An exception is Martin's (2002) qualitative study on cross-business synergy initiatives. However, his study does not distinguish between different types of cross-business synergies and focuses exclusively on temporary cross-business collaborations in companies that operate in highly dynamic markets. Consequently, his study does not provide any information on more stable collaborations between business units and on the realization of growth synergies.

Taken together, these observations suggest new research directions that directly focus on how growth synergies are realized in multi-business firms. They also suggest new research directions that focus on more stable (continuous) collaborations between businesses in moderately dynamic markets. Hence, we pose our empirical research question as follows:

RQ2: How can multi-business firms continuously realize growth synergies?

Taking a corporate perspective, we explore this question through a single, longitudinal in-depth case study, which is the subject of the following chapters of this dissertation. In the tradition of grounded theory (cf. Strauss & Corbin 1990, 1996; Schmid 2005), we have developed and further specified this research question during our empirical analysis along the two dimensions of strategy and organization:

- *Strategy*: What are the characteristics of strategic concepts that lead to the continuous realization of growth synergies in MBFs?
- *Organization Design*: What are the characteristics of organization designs that lead to the continuous realization of growth synergies?

6 Empirical Approach

In the preceding chapter, we have specified our empirical research question. This chapter focuses on the empirical approach that we employ to answer this question and to develop a mid-range theory of continuous synergy realization in MBFs. We begin by discussing our methodology and research approach (6.1), which provides the basis for our research design (6.2). We close the chapter with a discussion of the quality of our research by assessing different measures of validity and reliability (6.3).

6.1 Methodology and Research Approach

In this section, we develop the methodological basis of our dissertation (6.1.1) and a matching research approach (6.1.2).

6.1.1 Methodological Basis: Post-positivism and Grounded theory

The methodological basis determines which research approach the researcher accepts to generate scientific insights (Lamnek 1995). We fist clarify our assumptions on the nature of the social world as post-positivistic and then introduce grounded theory as our research method.

(1) Assumptions on the nature of the social world: Post-positivism

In social science research, the explicit or implicit assumptions of the researcher on the nature of the social world influence her/his choice of the research method (Guba 1990; Guba & Lincoln 1994; Lamnek 1995; Morgan & Smircich 1980). The assumptions determine what constitutes ‘valid’ research and which research methods are seen as appropriate. Most important in this regard are the ontological and the epistemological positions of the researcher. The *ontological position* states the assumptions concerning the nature of reality (Guba & Lincoln 1994). The *epistemological position* states the assumptions on the grounds of knowledge and how knowledge can be obtained (Hirschheim 1992; Guba & Lincoln. 1994). We therefore briefly state and discuss our ontological and epistemological positioning in this section.

While assumptions regarding ontological and epistemological positioning move along a continuum, three major paradigms can be distinguished:

- **Positivism:** Positivists assume that reality is objectively given and can be described by measurable properties which are independent of the observer (i.e. researcher) and his or her instruments (Guba & Lincoln 1994). Positivists are predominantely concerned with testing theory and employ rather quantitative methods to reach a "predictive" understanding of phenomena (Buchanan 1992).
- **Constructivism:** Constructivists make sense of the world by using social constructs, which are perceptual categories used for evaluating things (e.g., Delia and

Crockett 1973; Delia, O'Keefe & O'Keefe 1982; Lincoln & Guba 1985; Boland, 1985; Denzin 1996). Social constructs can be language, consciousness, shared meanings, etc. Therefore, every observation is a construction in the mind of the observer (Lincoln & Guba 1985). For example, some people have a construct about being fat that says fat people are lazy and greedy. Others may perceive it as a medical condition. The objective of the constructivist researcher is to develop more sophisticated understandings of the phenomenon being studied (Seale 1999). Constructivists use qualitative methods to fully understand and interpret single phenomena (Guba & Lincoln 1994).

- **Post-Positivism:** In post-positivism "*reality is assumed to exist but to be only imperfectly apprehensible because of basically flawed human intellectual mechanisms and the fundamentally intractable nature of phenomena*" (Guba & Lincoln 1994: 110). Post-positivists assume that scientific findings are temporary. They accept findings as probably true until they have empirically been proven false (Popper 1976). Therefore, a post-positivistic perspective allows generalizations to theory and at the same time recognizes that researchers are limited by their mental models. Post-positivistic research uses both quantitative and qualitative research methods (Myers 1997).

Throughout this dissertation, we employ a post-positivistic position. Post positivism reflects our beliefs regarding social science research best: We agree that researchers can only imperfectly apprehend reality because their cognition and their 'mental models' limit them. However, even though researchers are limited in their cognition, we believe that knowledge is at least to some extent generalizable and that continuous generation, testing and refinement of theories will enable us to improve our understanding of reality.

(2) Research Method: Grounded Theory

The research method describes the overall strategy for arriving at scientifically sound insights. We employ a qualitative method termed 'grounded theory' in our investigation of operative synergies, which fits our post-positivistic assumptions on the nature of reality (cf. Schmid 2005).

Grounded theory guides theory generation by collecting and analyzing data in an iterative process (cf. Denzin & Lincoln 1994; Glaser & Strauss 1967). Theory is inductively developed from data and consequently is *grounded* in data. Grounded theory aims to establish an active dialogue between theory and practice that leads to tangible, practically relevant theories (cf. Schmid 2005; Suddaby 2006). While grounded theory acknowledges the cognitive limitations of the researcher, its goal is to derive generalizable principles from data (cf. Schmid 2005; Strauss & Corbin 1990, 1996). Thus, grounded theory takes a post-positivistic stance and is well-suited to guide our empiri-

cal investigation. Specifically, we chose grounded theory as our research method for the following reasons:[58]

- The *theory-building character* of grounded theory allows us to tease out frameworks and propositions regarding the realization of growth synergies.
- The *explorative character* of grounded theory is well suited for generating novel insights into the theoretically and empirically immature field of growth synergies. Most insights into growth synergies have been achieved indirectly as 'by-products' of diversification-performance studies. As a result, research on growth synergies only provides very limited theoretical insights. The development of grounded theory may address this issue and may integrate the existing evidence on growth synergies and more generally on operative synergies into consistent theory.
- The *interpretive/inductive character* of grounded theory allows a direct and detailed analysis that permits the achievement of realistic and tangible insights into the realization of growth synergies (cf. Schmid 2005). The qualitative method allows for a sophisticated and context rich analysis, which quantitative methods cannot provide (cf. Pettigrew 1990; Yin 1994; Siggelkow 2006). The inductive character of grounded theory makes complex theoretical assertions easier to comprehend and more valid as they are directly derived from empirical data (Glaser 1992; Strauss & Corbin 1990, 1996). The practitioners interviewed are not just suppliers of data but competent partners that provide direct information for theory building (Lamnek 1995 from Schmid 2005). Consequently, grounded theory helps to gain more practical and less abstract insights into the realization of growth synergies, which are currently missing from the literature.

There are two schools of grounded theorizing, which differ with regard to a priori theoretical assumptions. The more radical approach by Glaser (1992) strictly requires that researchers have no up-front theory assumptions when they start their empirical investigation. The more moderate approach by Strauss and Corbin (1990, 1996) permits researchers to enter the field with a-priori theoretical assumptions or relationships.

We follow the more moderate grounded theory approach by Strauss and Corbin (1990, 1996) and do not dismiss our preliminary conceptual considerations[59], which we obtained from our review of the literature. However, we were always prepared to modify these considerations as new insights emerged from the data. The benefits of up-front theoretical considerations include increased sensitivity of the researcher to new issues,

[58] See Schmid (2005) for a similar application of grounded theory.

[59] In our research, these considerations did not form a concrete theoretical springboard (Eisenhardt 1989) but represented a generic understanding of organization design and process factors relating to operative synergies.

guidance, and inspiration (Eisenhardt 1989; Schmid 2005; Suddaby 2006).[60]

6.1.2 Research Approach: Case Studies

The research approach concretizes the research method by specifying the vehicles of investigation. It is the layer between methodological basis and the 'operative' research design.

Given the limited theory on the realization of operative synergies, we pursue a case study approach for our investigation. A case is a "*phenomenon of some sort occurring in a bounded context*" (Miles & Huberman 1994:25). Case studies are an established research approach for exploring complex phenomena in areas with limited or immature theoretical insights (e.g., Ghoshal & Bartlett 1994; Brown & Eisenhardt 1997; Lovas & Ghoshal 2000; Schmid 2005). They permit the researcher to explore a phenomenon holistically recognizing its complexity and context (Yin 1981a, 1994; Eisenhardt 1989; Punch 1998; Siggelkow 2007). In contrast to quantitative studies, their objective is to expand and generalize theories (analytic generalization) and not to enumerate frequencies (statistic generalization) (Yin 1994). The case study approach fits with our post-positivistic research position and with grounded theory due to its inductive and explorative character. Several studies that followed grounded theory have used a case study approach, e.g., Gersick (1994), Brown and Eisenhardt (1997), Martin (2002), and Schmid (2005). Furthermore, case study research is highly recommended for developing mid-range theories that are close to managerial practice (Merton 1986).

A purposeful case study approach requires clear decisions and definitions on several dimensions:

(1) First, the *bounded context* needs to be defined in which the phenomenon is explored (object of analysis) (Yin 1994). The phenomenon that we explore is the continuous realization of growth synergies. Our object of analysis is permanent cross-business collaboration within MBFs.

(2) Second, the *analytic level* on which the phenomenon is explored (unit of analysis) has to be clarified. The analytical level guides the investigation of the researcher and prevents him from collecting 'everything' (Yin 1994). Our unit of analysis is the organization, or more specifically, the strategy and organization design that lead to the continuous realization of growth synergies.[61] We employ a corporate perspective and

[60] Furthermore, as Pettigrew (1997) points out, every inductive study carries deductive elements through assumptions, values, and a frame of reference, which guides the researcher's observation.

[61] Initially, we considered cross-business synergy initiatives as an alternative unit of analysis. However, we discarded this idea as initiatives are of temporary nature and thus do not permit a full identification of the factors (i.e. organizational arrangements) that influence the *continuous* realization of growth synergies (which requires permanent cross-business collaboration).

explore this unit of analysis on multiple organizational levels (corporate level, business level, and divisional level) to facilitate a richer and more reliable process of inductive theory building (Yin 1981a, 1994).

(3) Third, a decision needs to be made on the *number of cases* (single vs. multiple cases) and the *duration* of the investigation (single point in time vs. longitudinal). Single case studies are preferable to uncover unexplored and complex phenomena and to question established theories (Stake 1994; Yin 1994; Siggelkow 2007). Furthermore, they allow a more holistic investigation of the area of interest (Yin 1994). In contrast to the study of a single case, (comparative) multiple cases may provide more robust findings and allow for theoretical replications (Yin 1994).

For our investigation of the realization of growth synergies, we employed a *single-case study* approach. Specifically, we investigated the strategy and organization design (unit of analysis) for permanent cross-business collaboration (object of analysis) that led to the continuous realization of growth synergies at the multi-business electronics and investment goods firm ElectroCorp. Our reasons for choosing a single-case approach were the following:

- *Investigation of a complex phenomenon*: Growth synergies are based on complementary resources (cf. Tanriverdi & Venkatraman 2005) and thus their continuous realization is likely to require complex organizational designs (cf. Stieglitz & Heine 2007), which call for a holistic study of the organization on multiple levels. A single-case approach is most suitable for such an investigation as it permits the researcher to explore the phenomenon in its full complexity and with great depth and over time (Yin 1994; Pettigrew 1990, 1997; Siggelkow 2007).

- *Lack of guiding theory*: Prior research has not investigated the continuous realization of growth synergies. Consequently, there is no theory that could guide our investigation. This fact points to a single-case approach: Without guidance, the exploration of multiple cases is likely to stretch the resources of the researcher too thinly, which may lead to superficial and potentially meaningless results (Yin 1994). Furthermore, due to the lack of theory, the investigation of growth synergies demarks a 'critical case', for which Yin (1994) proposes a single case approach.

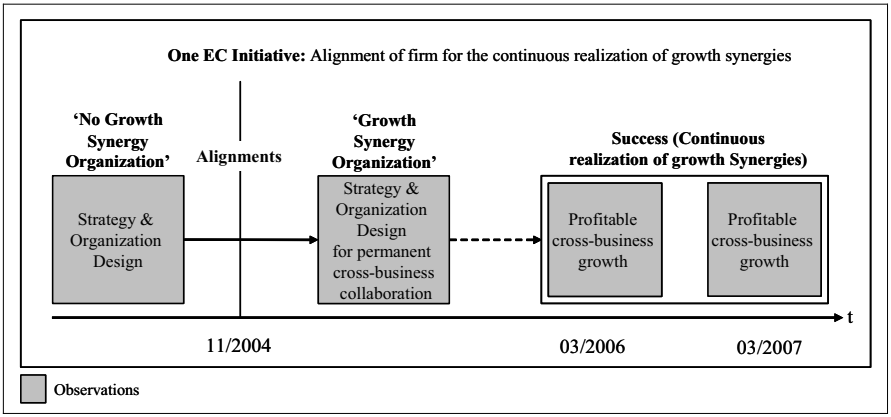
- *Suitable approach for rich descriptions*: A single case study allows us to provide detailed descriptions of the activities of corporate managers and their specific outcomes (e.g., resulting strategies and organization designs). In supplying valuable context and design knowledge for the otherwise highly abstract research on operative synergies, these descriptions significantly increase the comprehensibility and practical utility of our research (cf. Siggelkow 2007; Weick 2007).

- *Unique research opportunity*: Finally, the chance to gain comprehensive firm access for a longitudinal and holistic investigation of organizational alignments for

the continuous realization of growth synergies is a unique research opportunity that allows us to observe and analyze a phenomenon which has quite likely been inaccessible to scientific investigation before. According to Yin (1994) and Siggelkow (2007), this reason on its own justifies a single case study.

Our single case study of ElectroCorp (EC) was *longitudinal* (11/2004 – 03/2007). It began shortly after the company had initiated a dedicated corporate initiative, the "One ElectroCorp" initiative, which had the sole purpose to align the firm for the continuous realization of growth synergies. The ongoing observations of the organization during this alignment allowed us to identify components of strategy and organization design (units of analysis) that are related to permanent cross-business collaboration (object of analysis). By measuring profitable cross-business growth at the project and company level at multiple points in time (03/2006 and 03/2007), we assessed whether these strategies and designs were successful, i.e. whether they indeed contributed to the continuous realization of growth synergies. The measurement was mainly based on objective performance data (increase in cross-business growth and profit, increase in number of cross-business projects, profitability of cross-business projects) but was complemented with subjective evaluations by managers on multiple levels. Figure 6-1 depicts our longitudinal research logic.

Figure 6-1: Longitudinal research logic



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The longitudinal investigation allowed us to capture 'reality in flight'. This helped us to reduce the retrospective bias (Mintzberg 1979; Pettigrew 1990; Huber & Van de Ven 1995). Moreover, it significantly improved our ability to identify the components of 'strategy' and 'organization design' that contribute to the continuous realization of growth synergies (cf. Siggelkow 2001). Ghoshal and Bartlett (1994) successfully employed a similar longitudinal single case study approach for their investigation of ele-

ments of an organizational context that increase firm performance. Furthermore, Siggelkow (2007: 22) has recently highlighted such an approach for "*getting closer to constructs and being able to illustrate causal relationships more directly*".

Taken together, these advantages strongly suggest a single case approach for investigating the continuous realization of growth synergies. Grounded theorizing from single in-depth case studies has historically had an important role in the field of strategic management (e.g., Bower 1970; Mintzberg & McHugh 1985; Burgelman 1994; Ghoshal & Bartlett 1994; Lovas & Ghoshal 2000). Furthermore, the recent appeal for academics in strategic management to conduct more qualitative small sample studies in corporate strategy affirms our approach. For instance, Markides and Williamson (1996) conclude that the issues of strategic and structural fit in MBFs are still too complex for large-scale statistical analysis. They suggest small-sample study of limited numbers of diversified firms in detail, even single cases. Similarly, Whittington (2002: 130) argues that it is necessary to refrain from researching at a distance and "*counting structures and regressing them on performance*". Instead, corporate strategy and organization design should be understood from the 'inside'. He concludes that the time is ripe again for studies of the "*richness of Alfred Chandler's (1962) original studies of DuPont and General Motors*" (Whittington, 2002: 133). Likewise, Mintzberg (1979) stresses the importance of rich descriptions from anecdotes in in-depth single cases which explain the relationships between the data for theory building. Moreover, Porter (1991) is convinced that the 'nature of strategy' requires more case-based research. Finally, Siggelkow emphasized the persuasive power of the single case in a recent speech at the 2006 Academy of Management meeting and challenged researchers to conduct more single cases studies (Siggelkow 2007).

6.2 Research Design

The research design describes the concrete actions and steps that researchers follow to answer the research objectives and questions (Yin 1994). The development of our research design has been guided by the methodology and research approach, which we have discussed in the previous section.

We proceed as follows: We start by describing the nature and course of our research process to give an overview (6.2.1). Subsequently, we explain how we specified our research question (6.2.2) and selected our case (6.2.3). Finally, we discuss data collection (6.2.4) and data analysis (6.2.5).

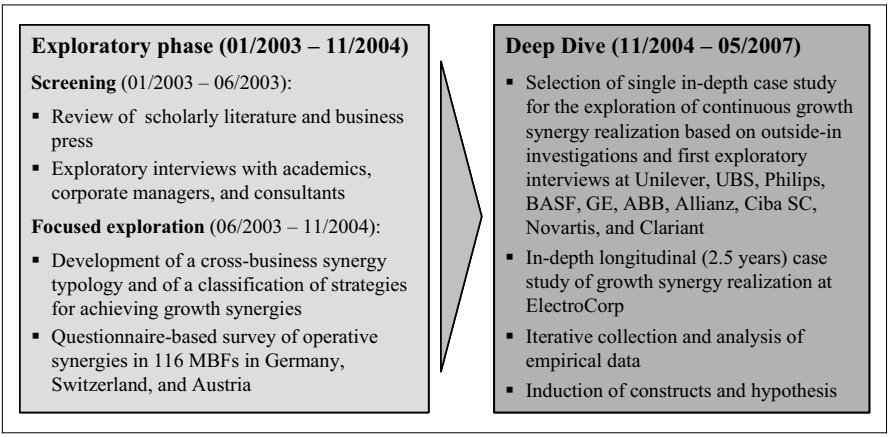
6.2.1 Research Process

We tried to structure our research process to be as systematic and goal-oriented as possible. However, the complexity of the investigated phenomenon made it impossible to follow a strict plan. Rather, our research process was iterative, and research questions,

methods, and field access were coevolving. This approach, which can be termed 'planned opportunism' (Pettigrew 1990), is common in qualitative studies of complex phenomena (e.g., Schmid 2005).

Our research process followed Eisenhardt's (1989, 2007) suggestions for building theory from case studies and employed selected methods of grounded theory (Strauss & Corbin 1990, 1996). We ensured the flexibility and openness demanded by qualitative research in general and grounded theory in particular by frequently switching between data collection and analysis (cf. Strauss & Corbin 1996; Schmid 2005). Our research consists of two distinct phases: (1) explorative phase, and (2) deep dive. Figure 6-2 provides an overview.

Figure 6-2: Overview of research process



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(1) The objective of the *explorative phase* (01/2003 – 11/2004) was to scope the field and provide an initial definition of the phenomenon to be explained. Once we had identified cross-business synergies as a fruitful area of investigation, we conducted first exploratory empirical work to obtain a wider perspective on the subject and to test whether it was as promising for research as we thought.[62] We screened the business press, analyst reports and company reports for references to cross-business synergies. Furthermore, we conducted exploratory interviews with academics, corporate managers, and consultants who had experience related to the management of MBFs. In these interviews, we discussed value generation on the corporate level and possible objectives and contributions of our study. Parallel to first exploratory investigations, we continuously deepened our understanding of academic literature on the subject by

[62] Please refer to appendices 3 and 4 for a list of our exploratory interviews and observations.

screening strategic, financial, and economic literature on diversification and corporate management.

By mid-2003, we had sufficient 'evidence' to conclude that the investigation of cross-business synergies would be an area where a dissertation can make both a theoretical and practical contribution: An increasing number of MBFs were pursuing cross-business strategies which were neither described nor explained sufficiently in strategic management literature. While we were confident in the choice of our topic, we realized that it was too broad and unstructured. From our initial literature review, we learned that many different literature streams from diverse fields in strategic management were referring to cross-business synergies and that coherent typologies were missing. This motivated our first research question, which explores the types of cross-business synergies that MBFs can realize to capture corporate value. Based on the underlying type of resource, we delineated four types of cross-business synergies and provided some empirical illustrations: operative synergies, financial synergies, market power synergies, and general management synergies. This distinction enabled us to focus our investigation. While obvious research gaps existed in all synergy types, some types seemed to be more practically relevant than others. With our new typology in mind, we reviewed our first explorative data (interviews, annual reports, business press, etc.) and found that most MBFs were focusing on operative synergies. Upon closer examination, we made two interesting discoveries: First, managers of MBFs were increasingly referring to profitable growth in the context of cross-business synergies, while the literature was mostly concerned with cost subadditivities from economies of scope. Second, practitioners were seeking advice on the organizational realization of growth synergies but theory did not provide any insights on that phenomenon. After an extensive review of the literature on operative synergies, these discoveries were translated into a provisional research question relating to growth synergies for further investigation.

From mid-2003 until the end of 2004, we focused our exploratory work. We intensified our general dialogue with scholars and practitioners in the field, attending conferences, talks, and presentations. Furthermore, we conducted a survey of operative synergies in 116 MBFs in Germany, Switzerland, and Austria.[63] The study confirmed that growth synergies are a high managerial priority in most MBFs.[64] A further result that emerged from our focused exploration was a description and classification of strategies for achieving growth synergies. These insights enabled us to formulate our em-

[63] Please refer to appendix 1 for selected questionnaire items of our exploratory survey

[64] 73% of the surveyed companies indicated that they are frequently or intensely collaborating across businesses to realize growth synergies. Furthermore, the managers of these companies regarded the continuous realization of growth synergies as an important corporate strategy issue. See Müller-Stewens & Knoll (2006) for an in-depth discussion of these exploratory findings.

pirical research question and encouraged us to start our next research phase, the in-depth investigation of the continuous realization of growth synergies at ElectroCorp.

(2) The objective of our second research phase, '*deep dive*' (11/2004 – 05/2007), was to empirically investigate how MBFs can continuously realize growth synergies. In a lengthy selection process which involved solid outside-in investigations of several MBFs and included preliminary interviews (specifically: Unilever, UBS, Philips, BASF, General Electric, ABB, Allianz, Ciba SC, Novartis, Clariant, and ElectroCorp), we selected our case company ElectroCorp. We studied the realization of growth synergies at ElectroCorp for 2.5 years. In an iterative process, we collected and analyzed data and derived constructs and hypotheses.

6.2.2 Specification of Research Questions

The specification of research questions is an important part of the research design as it focuses the research and thereby reduces complexity (Punch 1998). Without properly defined research questions the researcher can easily be overwhelmed by the data (Eisenhardt 1989; Yin 1994). There are two polar strategies for developing a research question (Punch 1998): The research question can either be derived deductively from existing research before the actual study or can be generated inductively during the empirical study. In line with other qualitative studies (e.g., Schmid 2005), we employed an approach that combines these strategies. The specification of our research questions was an iterative process that oscillated between deduction from the literature and induction from empirical study.

We began by deriving a preliminary overall research question from the literature: *How can MBFs realize cross-business synergies?* With this general question in mind, we conducted some explorative empirical work that showed us two things: First, the topic was practically relevant. Second, the question was too broad to guide our research; specifically so, as there seem to be many different ways in which MBFs can capture corporate value from cross-business synergies. This led us to formulate our first, intermediate, research question: ***Which types of cross-business synergies can MBFs realize?*** To answer this question we returned to the literature to conduct a more focused review. After classifying different types of cross-business synergies and illustrating them with some empirical evidence, we had the necessary overview and conceptual understanding to focus our attention on a distinct class of synergies: operative synergies that lead to profitable growth (growth synergies). Returning once again to the literature, we conducted an in-depth review of research relating to operative synergies. The observations from the literature revealed empirical and theoretical gaps that suggested our second research question: ***How can multi-business firms continuously realize growth synergies?*** During data analysis, we realized that we needed a more fine-grained structure to organize our findings systematically. In the data analysis

process we succeeded in developing a frame of reference which further specified the initial research question along two inductively derived sub-questions that differentiated the continuous realization of growth synergies along the two dimensions of strategy and organization design:[65] (1) Strategy: *What are the characteristics of strategic concepts that lead to the continuous realization of growth synergies in MBFs?* (2) Organization Design: *What are the characteristics of organization designs that lead to the continuous realization of growth synergies?*

6.2.3 Case Selection

The selection of the adequate case(s) is one of the most important aspects in case study design. We chose ElectroCorp, a global diversified electronics and investment goods firm with 13 businesses. Our case selection was guided by the following criteria to ensure that our observations enabled us to derive insights into the continuous realization of growth synergies in MBFs:

(1) Dedicated company focus on the continuous realization of growth synergies: ElectroCorp had just initiated a dedicated corporate initiative, the 'One ElectroCorp' initiative, which had the sole purpose to realign the firm for the continuous realization of growth synergies. This increased the possibility that we would be able to identify strategic concepts and organization designs for the continuous realization of growth synergies in MBFs. Furthermore, the real-time investigation helps to avoid problems stemming from retrospective data such as post-event rationalization (cf. Huber & Van de Ven 1995; Mintzberg 1979).

(2) Success: In contrast to other firms, ElectroCorp was more advanced in its organizational alignment efforts for the continuous realization of growth synergies and already had first success cases. Furthermore, the firm committed significant organizational resources to the organizational alignment including a dedicated full-time management team with over 25 corporate managers that reported directly to the CEO, several internal and external consultants, and a significant financial budget. This suggested that we should be able to observe 'successful' strategies and designs, i.e. that ElectroCorp succeeds in continuously realizing growth synergies. This made ElectroCorp the first choice among our eight alternative firms.

As our investigation progressed, these expectations were met. In the fiscal years 2005 and 2006, ElectroCorp profitably increased its cross-business revenues annually by over 40%, even though average corporate sales were stagnating. These increases could be related directly to the organizational alignments that we observed.

[65] This inductive ex-post specification of research questions in qualitative research is a sound methodological approach (e.g., Yin 1994; Strauss & Corbin 1996; Punch 1998) and has successfully been applied in several studies (see Schmid 2005 for an excellent demonstration).

(3) Moderate environmental dynamism: ElectroCorp's businesses predominantly operate in moderately dynamic environments.[66] Thus, our investigation of ElectroCorp contrasts with the only dedicated study on synergy realization in the literature (Martin 2002), which exclusively focused on firms operating in highly dynamic environments.

(4) Accessibility: Finally, an important aspect in selecting ElectroCorp was holistic access. In the context of a formal research agreement, we had unique access to the firm on multiple levels. Our investigation was supported by the heads of corporate strategy and corporate organization, which ensured that this access was sustainable.

6.2.4 Data Collection

A unique strength of the case study approach is its ability to deal with a wide range of data sources (Yin 1994; Eisenhardt 1989). For holistic case studies such as our investigation of the continuous realization of growth synergies, methodology scholars specifically suggest the combination of multiple methods of data collection (e.g., Eisenhardt 1989, 2007; Yin 1994; Stake 1995). It fosters data triangulation[67], which increases the quality of the collected data in three ways: First, it facilitates a holistic perspective on the unit of analysis as information can be obtained by various methodological techniques (Schmid 2005). Second, it avoids scientific artifacts because misunderstandings caused by the interviewee's statements or the interviewer's interpretations can be identified and corrected (Eisenhardt 1989; Lamnek 1995). Third, it enhances construct validity through multiple measurements of the same phenomenon (Eisenhardt 1989).

We continuously collected data over the period from November 2004 to March 2007 through (1) interviews at the case company, (2) direct observation, (3) collection of documentary data, and (4) interviews with external experts.

(1) Interviews at case company

Interviews permit the researcher to capture social reality that develops through communication and interaction (Langley 1999; Punch 1998). Consequently, this study used interviews as the primary method of data collection.

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[66] Environmental dynamism refers to "*the rate of change, absence of pattern and unpredictability of the environment*" (Priem et al., 1995: 914). The set of ElectroCorp's businesses that this study investigates were classified as operating in moderately dynamic environments due to the following facts: (1) moderate volatility of net sales and operating income (cf. Keats & Hitt 1988), (2) moderate change of marketing practices to keep up with market and competitors (cf. Miller & Droge 1986), moderate rate of obsolescence of products and services in the industry (ibid), (3) relatively good ability to forecast demands of customers (ibid), (4) moderate changes of the modes of production and service (ibid), and relatively good predictability of competitor actions (ibid).

[67] Triangulation is "*the use of an intersecting set of different methods and data types in a single project*" (Punch 1998: 190).

We conducted 68 interviews at our case company, ElectroCorp (see Appendix 5 for a list of interviewees). We chose our interviews iteratively (Miles & Huberman 1994) and cumulatively (Straus & Corbin 1996) based on theoretical sampling. The objective was to obtain rich data on the growth synergy initiative. To capture the full breadth of the initiative and to triangulate our observations, we questioned employees on multiple levels (cf. Yin 1989a, 1994).

We conducted the interviews in three phases. We started our investigation with the *first phase*, lasting from November 2004 to November 2005. During that time, we conducted interviews on the corporate level to achieve an overview of the initiative, its context, and the intended organizational changes. In addition to the focal initiative team, we interviewed employees of several central departments including portfolio management, market intelligence, corporate organization, corporate program management, mergers and acquisitions, corporate technology, internal consultancy, and corporate innovation. We then moved from the corporate level to the business and project level and interviewed several members on the business, regional and project level who were engaged in the realization of growth synergies. Our interview partners had different roles and responsibilities and included project leaders, integration managers, and project team members. The objective of these interviews was to get a more operational perspective on the initiative. The first phase was completed with a feedback session where initial insights were discussed with key stakeholders of the initiative.[68] During *the second phase* (April 2006 to October 2006), we mainly conducted continuous follow-up interviews with selected key interview partners who provided us with reliable information on the development of the initiative. In addition to these follow-ups, we conducted further interviews to explore issues that emerged from the first phase. An interactive feedback session also concluded this phase. In the *third phase* (October 2006 – March 2007) the follow-up interviews continued. However, these interviews were used chiefly to test emerging theoretical interferences rather than to capture further changes.

The *selection process* for the interviews was the following: After the research project had been approved, initial discussions led us to the most important individuals involved in continuous growth synergy realization (in the literature, this approach is sometimes referred to as 'snow-ball sampling', e.g., Denzin & Lincoln 1994). In line with our embedded research approach (Yin 1994), we interviewed individuals from different positions and organizational levels: top managers (e.g., head of corporate strategy, head of growth synergy program), middle managers (e.g., head of corporate departments, division managers), and front-line managers (e.g., corporate team leaders, business-level team leaders).

[68] These stakeholders included the heads of the OneEC initiative, corporate organization, corporate market intelligence, and corporate planning. Please refer to appendix 6 for a complete list of meeting participants.

During the course of the investigation, further interview partners were identified: The interviewees suggested some candidates; others were obtained through explicit inquiry during an interview. Further interview partners emerged from feedback meetings, which we conducted with selected corporate-level managers to discuss our preliminary findings. We stopped seeking additional interview partners when we had reached a certain level of saturation with regard to the content and context of the initiative. This was thought to be achieved when interview partners did not suggest any 'new' names anymore and when preliminary results did not call for increasing the scope of the research anymore.

We employed *problem-centered* interviews for efficient data collection (cf. Witzel 2000a/b). These are semi-structured interviews which are positioned between an entirely free narration and a strongly structured questioning. During the interviewer-respondent dialogue, the researcher adjusts the questions to focus the conversation on the relevant issues. Knowledge acquired from previous interviews and data analysis is used to elaborate the questioning. Based on flexible and open theory building, our interviews slowly moved from questions promoting story-telling to questions clarifying the understanding of previous narrations.

We employed an *interview guide* to structure our questioning and to ensure completeness. The interview guide was developed based on Witzel's (2000a/b) recommendations for problem-centered interviews. Our interview guide comprised the following six topics: [69] (1) *Context*: personal background of interview partner (professional background, hierarchical position, role in growth synergy realization) as well as strategic and cultural context of the firm (2) *History*: Historical development of OneEC initiative and/or organizational function of interviewee, (3) *Strategic Concept*: Strategic concept and rationale of growth synergy realization (strategic alignment), (4) *Organization Design*: Alignment and role of organizational design elements for the continuous realization of growth synergies, (5) *Corporate center*: Role of the corporate center in continuous growth synergy realization, and (6) *Success*: Success of OneEC initiative/continuous growth synergy realization (rating scale, financial/non-financial indicators) and perceived key success factors.

We modified and improved our interview guide throughout our investigation. Modifications were carried out to specify the guide for the specific background and position of the interviewee or to integrate preliminary insights. For instance, we differentiated the questions for the OneEC initiative leader from those of the team members. Furthermore, when we recognized that certain strategic or organizational elements like financial controls might be a central success factor, we added corresponding questions to the interview guide.

[69] The interview guide can be found in appendix 2.

We conducted most interviews on-site at the ElectroCorp's headquarter and various other company sites. In the later stages of research, we complemented on-site interviews with telephone interviews, especially if they were follow-ups. The duration of the interviews ranged from 1 hour to 5 hours, with an average of 2 hours. The interviews were summarized as soon as possible, most within 48 hours of the interview. Additional contextual information and relevant informal conversations were noted in a research diary and used to corroborate data obtained from the formal interviews.

(2) Direct observation

A second method for data collection was direct observation.[70] When conducting an in-depth case study, the researcher spends substantial time on-site, is personally in contact with the activities and operations of the firm and constantly reflects on and revisits the meaning of what is occurring (Stake 1995). This provides the researcher with several opportunities for direct observation, which is widely appreciated in the literature as a worthwhile source of data for case studies (e.g., Yin 1994; Denzin & Lincoln 1994). Direct observation can provide valuable context information and impressions in addition to the spoken word (cf. Pettigrew 1990; Foddy 1994; Lovas & Ghoshal 2000). Furthermore, as interviewees sometimes do not mean or do what they actually say (Foddy 1993), direct observation can be employed to check interview data and improve construct validity.

(3) Collection of internal and external documentary data

A further method of data collection was the retrieval and analysis of internal and external documentary data.[71] This secondary data complemented and validated the information from our interviews. Discrepancies frequently provided valuable hints for further investigation.

We *retrieved external* data from the business press, analyst reports, investor relations material, and academic publications. External data provided us with valuable context knowledge on the industry and the development of the firm, which contributed to our holistic understanding of synergy realization at ElectroCorp. Furthermore, an outside-in analysis of ElectroCorp, which we conducted before the start of our fieldwork, significantly improved the quality of our first interviews.

We obtained *internal data* from several interviewees. Furthermore, as part of our longitudinal research effort, we screened ElectroCorp's intranet five times to retrieve specific information regarding the growth synergy initiative. The internal data which we collected accounted for well over 4,000 pages and included presentations, speech tran-

[70] Please refer to appendix 7 for a list of our observations at the case company (that complement the interview-based observations).

[71] Please refer to appendix 8 for a list of the documents that we used in our case analysis.

scripts, organizational guidelines, job descriptions, process documentations, and videos. The internal data both supplemented and guided our interviews.

(4) Interviews with external experts (strategy consultants, financial analysts, and academics)

Finally, we obtained data from interviews with strategy consultants, financial analysts, and academics. They provided an additional perspective on the case company. Furthermore, they were valuable partners in discussing first empirical insights and allowed us to check to what extent we could generalize our findings.

We concluded our data collection, when theoretical saturation was reached, i.e. when no new categories were emerging and no new information inconsistent with the categories and tentative propositions was being generated in data analysis (Glaser & Strauss 1967; Strauss & Corbin 1990, 1996).

6.2.5 Data Analysis

The objective of our data analysis is the development of a grounded mid-range theory of continuous growth synergy realization. Mid-range theories are composed of concepts and propositions, which are close to managerial practice (cf. Merton 1968). They are less abstract, more focused, and more practically oriented than grand theories such as transaction cost theory (Merton 1968).

The goal of this section is to explain how we derived conclusions (i.e. a mid-range theory on continuous growth synergy realization) from data. While many established analytical techniques exist for quantitative research, very little guidance exists for the qualitative researcher (Eisenhardt 1989; Schmid 2005). In our analysis, we follow the principles of grounded theory established by Strauss and Corbin (1990, 1996) and the analytical process used by Ghoshal and Bartlett (1994) and Schmid (2005) in studies, which are comparable to ours.

Our data analysis partially overlapped with our data collection. This supports flexible and open theory building (Eisenhardt 1989, Strauss & Corbin 1990, 1996) and helps to focus data collection (Witzel 2000a/b). For our analysis, we used the iterative techniques of *abstracting* and *comparing* (cf. Strauss & Corbin 1990, 1996; Miles & Huberman 1994; Yin 1994; Punch 1998), which lead to groupings of items and the building of higher order concepts (Punch 1998) that finally result in constructs and/or propositions grounded in theory.

We started our analysis in November 2005 after our first round of interviews. To obtain an initial overview of complex reality, we began with a preliminary write-up of the initiative in note-form including information on its objective, key elements, organizational impact and history. We then engaged in the following iterative and ongoing

analysis procedure: First, we displayed our interview and secondary data. Second, we reduced it by applying methods of open and axial coding from grounded theory (Strauss & Corbin 1990, 1996) in four iterative steps:

Step 1: *Identification of core items*: We began with the identification of *core items* for the continuous realization of growth synergies from our interview summaries and secondary documents. Core items are key assertions that could be related to the continuous realization of growth synergies through direct observation and/or interviewee judgment on multiple levels and over time (cf. Pettigrew 1990; Yin 1994: Punch 1998).

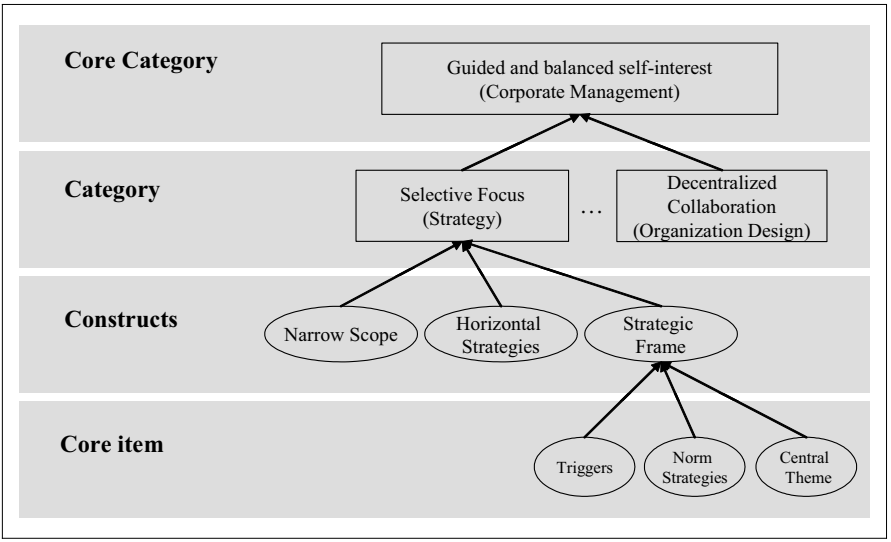
Step 2: *Inferring overarching constructs*: In a next step, we compared these items through an assessment of similarities and differences to infer overarching constructs.

Step 3: *Inferring overarching categories*: Subsequently, we compared the constructs to infer overarching categories for the continuous realization of growth synergies.

Step 4: *Integrating categories:* Finally, we integrated the categories into an overarching core category which assimilated our findings.

Figure 6-3 below illustrates our coding scheme with an (abbreviated and simplified) example.

Figure 6-3: Illustration of coding scheme for data analysis



Source: author

For instance, our data suggested that clearly articulated strategic triggers, norm strategies, and a central strategic theme are *core items* associated with the continuous realization of growth synergies. The common thread in all these items was that they provided strategic guidance. Consequently, we inferred the overarching *construct* 'strategic frame'. Further analysis revealed that the 'strategic frame' along with several other identified constructs contributed to the continuous realization of growth synergies by focusing organizational attention. Thus, we inferred the higher order *category* 'selective focus' from these constructs. Finally, the selective focus together with another category could be integrated into an overarching core category, a corporate management approach of 'guided and balanced self-interest'.

Our analysis process was not always as linear as described above. Sometimes, we were able to observe constructs directly from interview data. Furthermore, constructs are not homogeneous; some constructs are more complex than others, even though they are on the same level of abstraction.

Through frequent switching between theory and the field, we elaborated our initial constructs and their interrelations. This process eventually led to the formulation of robust propositions. We used the following tools for data analysis and validation:

- *Analytic Tables*: We created a table that summarized the key data for every category. Similar to the definition of constructs in quantitative studies, we delineated category-specific attributes (cf. Schmid 2005). However, we did not derive these attributes deductively a-priori but developed them inductively through sequential coding from core items and core constructs, as described above (cf. Eisenhardt 1989; Glaser & Strauss 1996). This criterion-based compression of key categories in analytic tables led to concise results.

- *Case Illustration*s: We illustrated the constructs with descriptions, narrations and/or representative citations in our presentation of the results to make them more comprehensible. If we could not match developed constructs with descriptions from the data, we refined our coding. Thus, case illustrations provided an additional check for the correct grounding of our constructs.

- *Comparison with existing literature*: Throughout our data analysis, we compared results with the existing literature (cf. Eisenhardt 1989).[72] These comparisons were a key analytical method in our study and led to the identification of several constructs. *Similarities* with the existing literature helped us to validate our constructs and increase the generalizability of our research. Furthermore, they helped us to root our findings in theory (Eisenhardt 1989).[73] *Contradictions* with the existing literature helped us to question our results and advance them in a more creative, frame-breaking mode of thinking (Eisenhardt 1989).

- *Discussion with managers of case company*: During data analysis, we discussed our results several times with selected ElectroCorp managers.[74] These discussions helped us to validate and improve our results. Disagreements on constructs and propositions frequently provided deeper insights into the phenomenon that led to significant advancements. To challenge the consensus during these meetings and to maintain and reinforce our status as an external observer, we frequently and deliberately adopted the devil's advocate position in these meetings (Probst 2000).

- *Discussion with consultants*: Part of our data analysis was the discussion of our results with strategic management consultants who had conducted projects at ElectroCorp and/or had profound knowledge on corporate management (cf. Whittington 2002). The consultants confirmed and/or challenged our results, which helped us to validate our findings and advance our analysis.

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[72] We hereby followed Eisenhardt's (1989) recommendation to consider a broad range of literature from different disciplines. Thus, in the analysis of our data, we considered literature streams outside the traditional research on operative synergies.

[73] Whenever feasible, we used existing constructs and terminology (from other research disciplines) such as 'planned evolution' to reduce complexity and improve our theoretical grounding.

[74] Please refer to appendix 6 for a list of feedback meetings at ElectroCorp that we used for a discussion of our results.

- *Comparison of results with mini-cases*: We used four mini-cases on the same phenomenon to check our results (companies: ABB, GE, IBM, and UBS). These cases did not qualify for a multi-case analysis but were still valuable in verifying and advancing some of our constructs during data analysis (cf. Leonard-Barton 1990).[75]

When theoretical saturation was reached and all constructs and categories had been elaborated (Glaser & Strauss 1967; Strauss & Corbin 1990), we concluded our analysis with an integration of the categories into an overarching core category and a comprehensive case study report on the continuous realization of growth synergies at ElectroCorp. The case report (which is presented in chapter 8 of this study) provides detailed and context-rich descriptions that foster a holistic understanding of growth synergy realization and increase practical utility (cf. Pettigrew 1990, 1997; Whittington 2002; Siggelkow 2007).[76]

6.3 Quality of research: Validity and reliability

Findings of qualitative research are especially vulnerable to incomplete and blurred perception of reality by the researcher. Thus, it is important to assess the quality of our research on generic criteria that enable comparability with other research designs (Lamnek 1995). The objective of this section is to discuss the quality criteria that are applicable to our research design and explain our tactics of quality assurance.

Methodology literature suggests four measures for assessing validity and reliability of case-based research (Cook & Campbell 1976; Larsson 1993; Stake 1994; Scandura & Williams 2000): The first is *construct validity*, which measures the degree to which a study investigates what it claims to investigate. The second is *internal validity*, which refers to the degree to which findings correctly map the phenomenon in question. The third is *external validity*, which describes the extent to which findings can be reproduced in another setting. The fourth and final measure is *reliability,* which is the degree to which the study is free of random errors. We proceed by discussing the quality of our research along these four criteria. Specifically, we explain the specific measures we took to assure that our research is of high quality.

(1) Construct validity

Construct validity refers to the appropriate and accurate 'measurement' of key constructs, i.e. it refers to the extent to which a research procedure leads to an accurate observation of reality. To ensure the validity of our constructs, we have employed the

[75] While we used these cases to cross-check our results during data analysis, we refrained from presenting them to reduce complexity.

[76] The constructs and categories are abstract and compressed. Alone, they do not provide sufficient context information to explain how multi-business firms continuously realize growth synergies. See Siggelkow (2007) for an in-depth discussion of the utility of comprehensive descriptive cases in strategic management research.

following four techniques, which have been suggested for case study research (Eisenhardt 1989, 2007; Denzin & Lincoln 1994; Stake 1994; Yin 1994; Mayring 1996):

- *Multiple sources of evidence*: We employed four different methods of data collection and interviewed people with differing individual perspectives and levels of observation (external, internal, corporate-level, business-level, project-level) to obtain complete data, and to cross check information and minimize our perception bias through triangulation (Stake 1994; Yin 1994).[77]
- *A-priori specification of key constructs*: Following Strauss and Corbin's (1990, 1996) grounded theorizing approach, we used existing theory to specify high-level constructs such as 'cross-business synergies' and 'growth synergies', which we advanced during our empirical study. Our a-priori understanding helped to focus our study and to improve our findings.
- *Closed chain of evidence from data to constructs*: Through case descriptions, interview citations, and clearly referenced interviews, we aimed to establish a closed chain of evidence that allows an external observer to follow the derivation of any evidence from the initial research questions to the final case study conclusions (Yin 1994) and thus increases construct validity.
- *Review of results by key informants:* Our last measure for improving the validity of our constructs was a review of results with our key informants (Mayring 1996). In review sessions with managers of the case company and external experts, we discussed the adequacy, meaningfulness and relevance of the constructs. Furthermore, we gradually improved our constructs by testing and validating our initial results in subsequent interviews. Moreover, as a further method of data triangulation, we asked key informants to review our case study (Yin 1994).

(2) Internal validity

Internal validity refers to the validity of the established causal relationships (Yin 1994; Lamnek 1995). In other words, it refers to the internal logic of the research (Punch 1998). We tried to achieve internal validity by (1) establishing a clear thematic focus that guided case selection, (2) abstracting and comparing, (3) conducting peer reviews of causal relationships, and (4) open and comprehensive explanation building.

- *Thematic focus and case selection*: Our clear definition of an overarching research theme (cross-business synergies), a narrowing research focus (operative synergies), and a specific research question (the continuous realization of growth synergies)

[77] Triangulation means that the phenomenon under investigation is studied in at least two ways (Smaling 1992). Data triangulation (Denzin 1989; Smaling 1992; Lincoln 1994) is related to the usage of multiple sources of evidence but transcends it in that the objective is to actually validate the data collection by correcting errors of fact (Yin 1994).

and an accordant case selection ensured that the constructs of interest could be discovered.

- *Continuous abstracting and comparing:* We improved the internal validity of the causal relationships by applying the grounded theorizing techniques of abstracting and comparing (Strauss & Corbin 1990, 1996). As described in our discussion on data analysis, we constantly compared (1) data sets to build higher order constructs, (2) preliminary results to our emerging data to confirm of refine our results, and (3) observed causal patterns with the existing literature. These relentless comparisons can best be described as 'playing with the data' to improve the internal validity of causal relations (Yin 1994).
- *Peer reviews of causal relationships:* We discussed our case drafts and proposed causal relationships with research colleagues. Their additional perspectives and experience in the field helped to validate the internal consistency and theoretical relevance of our arguments.
- *Open and comprehensible building of explanations*: A final aspect of internal validity is the inter-subjective comprehensibility of our explanations and causal relations. Results need to be documented in such a way that the reader can reconstruct the causal relationships (Mayring 1996). To achieve this, we openly and comprehensively build our explanations in the discussion of our results and include initial ideas, deducted assumptions, and potential inconsistencies.

(3) External validity

External validity refers to the generalizability of research results. Generalizable findings are crucial for solid theory development (e.g., Sutton & Straw 1995; Weick 1995b). How generalizable results are, however, depends on the research approach (Yin 1994). We chose a single case study approach to explore the realization of growth synergies. However, case studies make it difficult to generalize empirical findings. For instance, Yin (1994) stresses the fact that case studies do not allow for statistical generalization, i.e. making interferences about a population based on empirical data collected about a sample. Similarly, Lamnek (1995) states that results from case studies can only be generalized to theoretical propositions on relations.

The issues of generalizability from case studies are particularly severe for single cases (e.g., Denzin 1989; Yin 1994). However, single case studies are recognized to be valuable "*small steps toward grand generalization*" (Campbell 1985, cited in Stake 1995: 238)[78]. Furthermore, single cases can provide "*inspiration for new ideas*" and help to

[78] It is worth noting that some proponents of single case studies argue that generalization cannot, and in fact, should not, be accomplished in all research, since incorrect conclusions could be drawn when the commitment to generalization runs so strongly that the researcher's attention is drawn away from features important for understanding the case itself (Minzberg 1979; Simons 1980; Stake 1995 from Gibbert 2002). Stake (1995) has

"*sharpen existing theory by pointing to gaps and beginning to fill them*" (Siggelkow 2007: 21)

Acknowledging that our case can only be a first small step towards a theory for continuous growth synergy realization, several facts make us confident that our research is at least to some extent generalizable:

- *Similarities with existing literature*: Several of our constructs could be confirmed with similar terms and assertions in the existing literature, which suggests the general theoretical relevance of our research (Eisenhardt 1989).
- *Confirmation through external experts*: In discussions, academics, consultants, and external managers from different industries confirmed several of our findings. This again indicates that our findings are applicable not only to the focal case but also to other firms within and across industries.
- *Comparison of similarities and differences*: Our relentless within-case comparison of items across different levels of analysis during data analysis (e.g., comparison of divisional growth synergy projects under the umbrella of the investigated initiative) increases the likelihood of generalizable findings (cf. Schmid 2005).

(4) Reliability

Reliability refers to the possibility that scholars can replicate the research with the same findings (Eisenhardt 1989; Yin 1994). Such replication is difficult to achieve in qualitative research because (1) data collection and analysis interfere with each other and (2) research methods are intertwined with the researcher due to their communicative and interpersonal nature. In other words, qualitative research is bound to the context in which it is conducted and thus difficult to replicate (Lamnek 1995). Consequently, reliability in qualitative studies focuses on providing sufficient information that enables the reader to draw her/his own conclusions (Yin 1994). We attempt to ensure reliability through (1) documentation of the research design and (2) inserting empirical raw data.

- *Documentation of research design*: In the previous sections, we made our research design explicit to allow for inter-subjective verification. This included detailed descriptions of our research process, case selection criteria, interview guide, and methods for collecting and analyzing empirical data.

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argued that it is precisely the epistemology of the particular, i.e. the attention to features important for understanding the case itself, which allows for an understanding of a general phenomenon underlying the case under investigation: "*On representational grounds, the epistemological opportunity [of a single case] seems small, but we are optimistic that we can learn important things from almost any case. Potential for learning is a different and sometimes superior criterion to representativeness*" (Stake 1995: 243). The same logic applies to the widespread use of case studies for teaching purposes (Eisner 1985; Probst 2000).

- *Insertion of empirical raw data*: In the write-up of our results, we inserted empirical raw data to allow the reader to draw her/his own conclusions. This included (1) comprehensive case descriptions with original citations and graphs and (2) original citations that made key results 'selectively' plausible (Flick 1999 from Schmid 2005).

6.4 Summary and Discussion

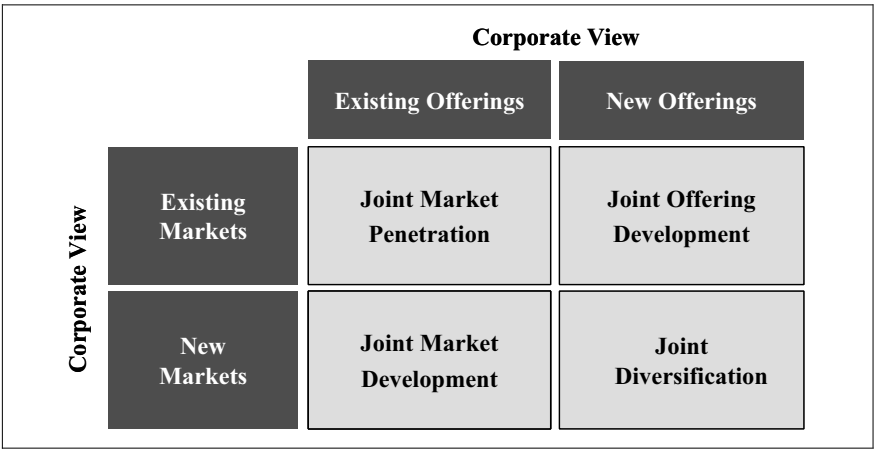
In this chapter, we described and justified our empirical approach. We elucidated our post-positivistic research position. Furthermore, we clarified the phenomenon that this study investigates as the 'continuous realization of growth synergies', the object of analysis as 'permanent cross-business collaborations within MBFs' and the unit of analysis as 'the organization', or more specifically 'the strategy and the organization design of the firm'. We introduced grounded theory as the research method and a longitudinal single case study as the research design of this study. The reasons for choosing grounded theory are its interpretive and explorative character, which permit building a mid-range theory of continuous growth synergy realization that is close to managerial practice. We decided to conduct a longitudinal single case study because it allows investigating the complex phenomenon of continuous growth synergy realization in depth and on multiple levels of the firm. We explained that we selected the global MBF ElectroCorp for our in-depth study because we had the unique opportunity to observe the successful alignment of the firm for the continuous realization of growth synergies. The observation of this alignment and its outcomes over 2.5 years allowed us to infer constructs and propositions regarding the continuous realization of growth synergies. We ended the presentation of our empirical approach by discussing our strategies for ensuring the validity and reliability of our research.

7 Exploratory Work: Strategies for Growth Synergies

Growth synergies are an output effect (increased performance through profitable cross-business growth). Current research on growth synergies is based on highly abstract resource definitions that test this output (i.e. performance) effect (e.g., Tanriverdi & Venkatraman 2005).[79] This brief chapter addresses this issue and aims to provide a more concrete understanding of growth synergies. Based on exploratory work that included 51 interviews with practitioners and a survey of 116 MBFs, we provide a systematic overview of generic strategies for achieving growth synergies.[80] The understanding of these strategies sets the stage for our in-depth discussion of the continuous realization of growth synergies in the next two chapters.

From our exploratory data, we derived four overarching strategies for achieving growth synergies, which we organized in a two-by-two corporate product-market matrix depicted below (see exhibit 7-1). The matrix is based on Ansoff's (1965, 1988) classic product-market growth framework, which we adapted to express corporate-level options for growth synergies.

Figure 7-1: Strategies for achieving growth synergies



Source: author

The matrix organizes strategies for achieving growth synergies along the two dimensions 'markets' and 'offerings'. The *market dimension* refers to the customer segments

[79] Tanriverdi & Venkatraman (2005) conceptualize growth synergies as complementary combinations of related customer, product and operative managerial knowledge across businesses. This conceptualization does not reveal much information on the actual characteristics of and strategies for achieving growth synergies.

[80] Please refer to appendices 1, 3 and 4 for more detailed information on the data basis of our exploratory work.

that the firm targets. The *offering dimension* refers to the products and services that the firm offers in the market. Depending on whether markets served or products/services offered already exist or are new to the firm, four generic growth synergy strategies can be differentiated: (1) joint market penetration, (2) joint offering development, (3) joint market development, and (4) joint diversification.

We proceed with a discussion of these strategies (7.1-7.4) and their timing (7.5). The chapter closes with a brief summary (7.6).

7.1 Joint market penetration

Joint market penetration denotes the synergistic increase of market share in existing markets with existing offerings. Businesses are working together to achieve growths synergies by profitably increasing their individual market shares. We observed four types of joint market penetration: (1) Cross-selling/lead-sharing, (2) bundling, (3) joint marketing initiatives, and (4) umbrella brands.

7.1.1 Cross-selling and lead-sharing

MBFs can leverage existing customer relationships across businesses through cross-selling or lead-sharing. *Cross-selling* occurs when the sales person of one business also sells offerings[81] of other businesses. For instance, a sales representative at a bank may not only sell the offerings of the retail division but may also actively promote offerings from the asset management division. Similarly, a sales representative from the 'life' business of an insurance company may recommend his customers products from the 'non-life' business of the firm. As a manager of the Swiss-based insurance company Helvetia asserts:

> *"We continuously try to increase our sales volume through cross-selling products from our life and non-life businesses to customers." (E 42)*

In more complex sales situations, where a sales representative from one business does not have the knowledge, skills or credibility to simply cross-sell the offerings of sister businesses, he may generate growth synergies by informing his sales peers in the respective business about the selling opportunity, which is called *sales lead.* In contrast to cross-selling, we term this process lead-sharing. Lead-sharing is common in infrastructure and technology companies that target business customers, as offerings of these firms are more complex and require specialized sales representatives. As a manager from a multinational electronics and infrastructure firm explains:

> *"We encourage lead-sharing across our divisions. If, for example, the medical unit sells a new CT scanner at a hospital and learns in the sales*

[81] Offerings include products, services and any combinations of products and services.

> *process that they plan to build a new building, the sales manager is supposed to inform our building technology unit about an emerging selling opportunity." (S14: 2)*

Cross-selling and lead-sharing generate synergies by combining customer knowledge to better exploit sales opportunities for existing offerings, which otherwise may not have been noticed or taken advantage of. In other words, businesses sell more of their products by improving the penetration of common customers. Moreover, cross-selling and lead-sharing may reduce sales costs because not all businesses have to incur the costs of building the customer relationship. Savings can be significant. Research has shown that the costs of maintaining existing customers are five to seven times lower than the costs required for winning a new customer (e.g., Kunz 1996). Furthermore, cross-selling and lead-sharing can help to establish 'one-face to the customer' and may reduce harmful internal competition, which is amazingly common between businesses of a MBF, as the following incident at the global logistics firm NYK Logistics illustrates:

> *"Thomas D. Purdue and a colleague had arrived early. Waiting to make a sales presentation to a potential client of NYK Logistics, they were surprised to encounter representatives of a second unit of their company. Then another team showed up from a third company unit. Then another group from a fourth. None of the groups had known about the other's appointments, and each was prepared to make its own sales presentation to the bewildered customer" (Bonney 2006: 40).*

If institutionalized and marketed properly, cross-selling and lead-sharing may also lead to growth synergies by increasing customer utility. They may add value by providing a trusted 'one-stop shop' that increases convenience and reduces complexity for customers. In some industries, a 'one-stop shop' may even be a source of differentiation over more focused single business competitors and may lead to corporate advantage. For example, a large number of customers in the US find it advantageous to purchase all of their financial services products – checking account, mortgage loans, insurance policies, and investment services – from a single provider (e.g., Hill & Jones 2007). Consequently, in the US financial consumer services industry, cross-selling may be at least a temporary source of differentiation.

7.1.2 Cross-business bundling

Bundling involves presenting existing customers the opportunity to buy a complete range of offerings (bundles) at a single, combined price. The price of the bundle may be lower or higher than the sum of the individual offerings. Bundles consist of separate and independent but related offerings from different businesses that are brought together for common customers. They usually address specific customer problems. In contrast to cross-selling, where offerings from other businesses are suggested to cus-

tomers ad-hoc, bundles are *specifically designed*, *predefined* and *marketed as a whole*.

Cross-business bundling is a phenomenon that can be observed in several industries. Currently, it is particularly prominent in the telecommunications industry, where offerings from the mobile and broadband businesses converge. Many diversified telecommunication companies are currently bundling offerings across their businesses to take advantage of growth synergies and to better meet the preferences of their customers. For example, firms such as Swisscom, British Telecom and Deutsche Telekom offer various single priced 'triple play' bundles that include 'fixed line' and 'mobile phone' service, high-speed internet access, and video-on-demand. As a manager of the Swiss telecom provider Swisscom explained:

> *"In the future, we will focus increasingly on triple-play, that is we will offer our customers [cross-business] bundles of phone services, internet and home entertainment. Different bundles will be available at different prices and will address varying customer demands. Our advantage [over other firms] is that we can provide one-stop shopping for our customers. Furthermore, we can offer them more consistent product packages as we have all required capabilities in house." (E37)*

Recently, diversified industrial companies have started to engage in cross-business bundling. Firms such as GE, Siemens, and ABB have noticed that some of their customers potentially require products from several of their businesses to address a specific business issue. For instance, some customers of GE's infrastructure business require financing that the commercial financing unit offers. Consequently, industrial firms have started to design cross-business bundles to exploit growth synergies.

Cross-business bundling may generate growth synergies due to higher revenues at lower selling costs. New and existing customers may simply buy more offerings from the firm's different businesses when bundled and marketed as a whole. Bundling may also generate additional value for the customer by reducing complexity and customer transaction costs. It eases the search for the individual components of a solution, simplifies the sourcing process through 'one-stop shopping', and provides a single point of contact for installation and service. Depending on the industry, increased customer value through cross-business bundling may translate into differentiation advantages over more focused firms that only offer individual parts of the bundle. A popular example is Microsoft's office software, which bundles a word processor, a presentation application and a spreadsheet program – all products from different product businesses – into a single package. This cross-business office bundle helped Microsoft to rise from an average player with number two or three positions in any of the bundled product categories in the early 1990s to the market leader in all these categories (cf. Hill &

Jones 2007).[82] The potential for cross-business bundles to contribute to differentiation and thus corporate advantage is high if customers value the convenience of dealing with a single supplier and do not switch easily between suppliers. Firms may then use bundles to create exclusive selling relationships. This may be the case, for instance, with triple-play bundling in the telecommunication industry. Market research has shown that customers prefer a triple-play offering from a single supplier. For instance, the strategy consulting firm Booz Allen Hamilton (2006) has estimated that by 2011 one-third of Germany's households will use single-vendor triple-play bundles. As telecommunication customers usually do not switch frequently, these bundles may be a powerful source of differentiation. Diversified industrial firms follow a similar logic with their bundling strategies. In addition to increasing the sales of their businesses, they use bundles to establish trusted partnerships with key customers.

7.1.3 Umbrella brand

We observed that multi-business firms increasingly foster market penetration through umbrella-brands. An umbrella brand is a common brand across businesses. For example, the Swiss-based banks UBS and Credit Suisse and the Swiss-based insurance company Helvetia just recently abolished most of their local brands to establish a global umbrella brand. Other firms such as GE, Microsoft, and Siemens have traditionally employed umbrella brands.

Growth synergies can be achieved by leveraging image, reputation and trust effects of a strong brand across several businesses. Additionally, brands may provide orientation for employees and customers. These joint branding effects can be a significant source of value as a recent study on brand equity suggests. The study estimates the brand values of Coca-Cola at approximately 67 billion US-$, of Microsoft at 57 billion US-$, of IBM at 56 billion US-$ and of GE at 49 billion US-$ (Schmidt 2006).

The recent move of the global, Swiss-based bank UBS towards an umbrella brand illustrates this reasoning well (UBS 2006a/b; E35):

> *UBS consists of the three businesses 'wealth management', 'asst management', and 'investment banking', which work closely together to act as 'one firm' for their clients. In 2001, top management initiated a global brand strategy project, which led to the launch of an umbrella brand in June 2003. At the core of deciding on a single brand have been synergistic growth benefits. The central hypothesis was that a single brand across all businesses could transport UBS' core value propositions more consistently and effectively to their clients.[83] A single brand*

[82] Market power synergies from bundling also contributed to Microsoft's success (see chapter 3.2).

[83] UBS' core value propositions are: (1) This firm's advisors take the time to understand my needs and goals. (2) This firm and its advisors proactively provide appropriate solutions. (3) This firm is an integrated global pow-

may increase brand awareness, consideration, familiarity and preference for UBS and may reduce customer confusion with multiple brands. Consequently, a single brand may lead to higher sales growth in all businesses through new clients and higher client loyalty. So far, the umbrella brand strategy seems to pay off. UBS' brand value has steadily increased from 6.5 billion US-$ in 2004 to 8.7 billion US-$ in 2006 (2006a). Moreover, the agreement of clients to key brand attributes such as 'UBS is a global powerhouse', 'UBS takes time to understand us' and 'UBS has superior expertise' has steeply increased (UBS 2006a).

7.1.4 Joint marketing initiatives

Joint marketing campaigns are another corporate level strategy for achieving growth synergies from joint market penetration that we observed. We define joint marketing initiatives as cross-business marketing campaigns and cross-business customer programs that are geared at strengthening image and customer loyalty. Similar to umbrella brands, they create growth synergies by mutually re-enforcing image, brand, and reputation effects that increase business-level sales. Furthermore, through cost sharing, they allow businesses to conduct marketing initiatives which they could not handle on their own. We observed two types of joint marketing initiatives: (1) joint image campaigns and (2) joint customer loyalty programs.

(1) Joint image campaigns

Joint image campaigns are collaborative and coordinated efforts of several businesses to build corporate identity and to convey a certain image to their stakeholders. An example for a joint image campaign is GE's 'Ecomagination' initiative:

The ecomagination initiative is a joint marketing campaign of several GE businesses to promote a common theme, their recent move into the market for environmentally viable ('green') products. GE's businesses realized that there is an increasing demand for products that are more energy-efficient and less emissive (GE 2006a).[84] *The ecomagination initiative aims to convey a 'green image' that positions GE's business in this growth market. As Jeff Immelt recently explained: "Ecomagination is an integrated marketing campaign … The goal was to strengthen the company by picking a theme that was bigger than just energy, rail, or aircraft engines, or plastics. We'd never done anything like that before. But in 2004 it came up in our strategic planning process … that there*

erhouse. (UBS 2006a/b; E35)

[84] Major trends that are driving the market-growth for 'green products' are (1) depleted reserves of known oil and gas reserves, (2) the shortage of clean water – over a billion people across the globe lack clean water, (3) the rapid growth of developing countries, which fuels demand for infrastructure and access to clean energy and (4) the global recognition by governments of the need to take steps to slow the growth of and then reduce greenhouse gas emissions (GE 2006e).

was a big theme emerging across five different businesses – a real focus on emissions reduction, energy efficiency, water supply, and what I would call generally the economics of scarcity" (Stewart 2006: 9-10).

The ecomagination campaign launched a series of joint marketing activities including advertising commercials in TV and print media, sponsoring of events, public relations campaigns, conferences, brochures, show cases, a multilingual website (www.ecomagination.com), lobbying with governmental groups, and joint projects with environmental care organizations. The CEO of the firm multiplied these efforts through promoting the initiative during interviews, customer meetings, and public events.

As part of the initiative, GE has publicly committed itself to double its investment in clean R&D[85]*, to increase revenues from ecomagination products to at least US-$ 20 billion in 2010, to reduce its greenhouse gas emissions by 1% by 2012, and to improve energy efficiency 30% by the end of 2012 (GE 2006a/e).*

So far, the ecomagination initiative has attracted plenty of attention and has received a positive response from the public and the firm's stakeholders (e.g., Hart & Milstein 2006). Intense media coverage has helped GE to build a 'green image'. The ecomagination initiative has called the attention of customers towards GE's offerings and has positioned GE as a partner and expert for environmentally viable products. This helps GE's businesses to increase their individual share of the rapidly growing market for 'green products' and thus generates growth synergies.

GE's ecomagination initiative has illustrated how joint image campaigns can generate growth synergies. Each of GE's businesses on its own would have neither the resources nor the reach to obtain a green image and favorable market position that quickly. By combining their resources, however, they had the critical mass to make a significant impact.[86]

(2) Joint customer loyalty programs

Joint customer loyalty programs are collaborative efforts of several businesses to increase customer loyalty.

An example is the customer loyalty program of the Swiss diversified retail firm Migros. Migros operates in different businesses: grocery stores, restaurants, home improvement stores, and continuous education cen-

[85] An example of an ecomagination product is GE's new aircraft engine which is 15% more fuel efficient than the ones it replaces, has fewer greenhouse gas emissions, and is less noisy (GE 2006e).

[86] The critical mass resulted from a multiplication of communication channels across businesses and a larger base of use cases that could be presented to the public (like the fuel-efficient aircraft engine).

ters. Across all its businesses, Migros launched a joint customer loyalty program, the "Cumulus Card". Customers can earn loyalty rewards (Cumulus points) at all of Migros' businesses, when they present their loyalty card to the cashier. After a certain amount of loyalty rewards have accumulated, the customer receives a voucher that he can redeem in any of Migros businesses.

It is probable that a joint reward program will have a stronger effect on sales growth than individual business specific programs and may thus generate growth synergies. The argument is the following: In a joint customer loyalty program, customers are likely to reach reward levels faster as they have more opportunities to obtain points. They may thus be more loyal to the firm and prefer the firm over more focused single-business competitors.

7.2 Joint offering development

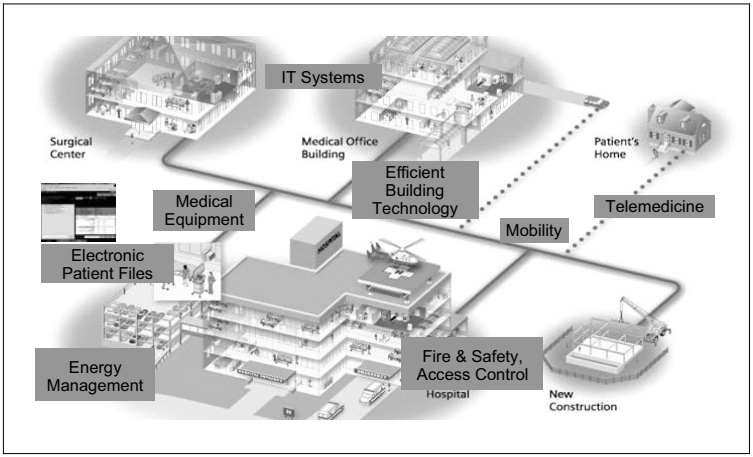
Joint offering development denotes the synergistic development of new offerings across businesses for existing markets. We observed three types of joint offering development in MBFs that may lead to growth synergies: (1) the development of integrated cross-business solutions, (2) the innovative combination of resources, and (3) joint development platforms.

7.2.1 Integrated cross-business solutions

We define integrated cross-business solutions as solutions that strongly integrate complementary components from several of the firm's businesses to solve defined problems for common customers. One example of integrated cross-business solutions is IBM's on-demand combination of computer hardware, software, and services to solve individual customer needs. The sector solutions of the industrial MBF ElectroCorp are another illustration of integrated solutions that we observed:

The global technology firm ElectroCorp develops technically integrated cross-business solutions for common corporate customers in different sectors such as airports, hospitality, automotive, and medical. For instance, ElectroCorp's medical, IT services and building technology businesses develop integrated solutions that support the core processes of hospitals (see figure 7-2 on the next page). These solutions range from telemedicine solutions to 'smart' medical equipment that is connected with IT systems and is seamlessly embedded into patient care processes.

Figure 7-2: Integrated cross-business solutions for hospitals



Source: ElectroCorp Company presentation (P9)

A further illustrative example for integrated cross-business solutions comes from Microsoft and is representative for several other firms in the software industry such as SAP, Oracle, and Symantec:

> *As discussed, Microsoft started with bundling its separate word processing, spreadsheet, and presentation software into an office suite. Over time, Microsoft has technically integrated these formerly unconnected products. Besides standardizing the 'look and feel' across applications Microsoft integrated them through 'object linking and embedding', which permits users to cut and paste objects freely between applications. Users obtain an optimally aligned office system that permits them, for instance, to integrate spreadsheets from Excel and graphics from PowerPoint into a Word document with professional layout.*

The development of integrated cross-business solutions may lead to growth synergies through increased market coverage. Businesses that do not only sell their offerings or components individually but also integrate them into solutions increase their market coverage, which may eventually translate into higher (profitable) sales. Integrated cross-business solutions may also raise sales and profits across businesses by increasing customer utility. They extend the customer value proposition of cross-business bundles. In addition to reducing complexity and customer transaction costs, integrated solutions provide optimally aligned components that work together seamlessly as a system and reduce the time and risk of integration. Thus, integrated solutions are especially valuable for customers that operate complex systems (e.g., operators of hospitals, airports, power plants, automotive plants) in dynamic markets. For instance, in the infrastructure industry, a high demand for integrated turnkey solutions comes from

customers in rapidly growing economies such as China and India. Customers in these markets are looking for providers that are able to deliver turnkey solutions for Greenfield projects, such as new airports and power plants, reliably and quickly. Consequently, several infrastructure providers such as GE, Siemens, and ABB have recently begun to integrate their offerings across businesses. As bundles, integrated cross-business solutions may support differentiation. MBFs may leverage superior internal integration skills, coordination advantages, and financial strength. More focused single-business firms may not be able to match the quality and installation time of integrated cross-business solutions, even through partnering or alliances (cf. Cacciatori & Jacobides 2005). The development of integrated cross-business solutions may also help to form tight customer relationships, which can be a source of sustained competitive advantage (cf. Barney 2007). In many business-to-business markets such as the market for infrastructure, integrated solutions are large projects that are conducted in close cooperation with the customer and strengthen the customer-supplier relationship. Furthermore, integrated solutions may lock customers in through service contracts that are a source of repeating revenues (cf. Porter 1985). The service of integrated solutions frequently requires proprietary experience or components that only the original developer of the solution can provide. For instance, a significant amount of GE's profits from its infrastructure businesses comes from long-term service contracts for its sold integrated solutions (installed base).

7.2.2 Innovative cross-business fusions

Innovative cross-business fusions are cross-business combinations of complementary resources that result in unique new products for present markets.[87] These resources may be technological expertise, product knowledge or customer knowledge, among others. Unlike integrated solutions, the focus of innovative fusions is not on the integration of offerings into solutions but on designing completely new products, in which intermediary resources or capabilities of the participating businesses are merged. For example, a diversified MBF, which produces chocolate and ice cream, may merge these capabilities to produce unique chocolate ice cream bars. Another illustrative example that we observed is from the banking industry:

> *The Swiss bank UBS combined resources from its 'wealth management' and 'investment banking' businesses to develop unique finance products for 'ultra high net-worth' clients. These private wealth management products contained features that were usually only available for institutional investors. Such innovative fusions are an explicit part of UBS' business model. As a corporate manager explains:*

[87] In contrast to integrated cross-business solutions, innovative fusions do not integrate existing components of businesses that may be sold separately but generate completely new products in which the resources of the participating businesses are resolved.

> *"As part of our one-bank approach, we continuously search for innovation through cross-leveraging know-how between our businesses. At the moment our focus is on joint innovations between our investment banking and private wealth management units." (E35)*

We also observed innovative cross-business fusions in several other industries. One example from the consumer electronics industry is Canon's combination of microelectronic skills from its copier business with skills from its camera business to develop advanced cameras with electronic features such as auto-focusing (cf. Prahalad & Hamel 1990). Another illustration from the consumer goods industry is Procter and Gamble's (P&G) 'crest white strips' product. White strips are a teeth-whitening product which consists of gel-soaked strips that are applied to the teeth for 30 minutes. The product was the result of a joint development effort between the 'product packaging' business unit and the 'dental care' business unit. The 'packaging unit' delivered the competencies for designing the strip and the 'dental care unit' the competencies for the whitening gel.

Assuming market success, innovative fusions create growth synergies by increasing the revenues and profits of the businesses involved. They may also contribute to differentiation if the product creates a unique customer value that more focused firms cannot easily match because the merged resources were proprietary or because the product could be developed at less cost internally. Furthermore, innovative fusions may lead to timing advantages when they permit the MBF to bring a new product faster to the market than competitors.

7.2.3 Joint development platforms

Joint development platforms are jointly developed intermediary modules, which are used in a variety of end products of different businesses. We observed two kinds of joint development platforms: (1) joint component platforms and (2) joint product platforms.

(1) Joint component platforms

Joint component platforms are technical components which are used to produce intermediary products or end products across businesses.

Joint component platforms can take on very different forms. For example, Radio Frequency Identification (RFID) technology can be used as a basis for several products. For instance, Siemens uses a common RFID platform in a variety of products across its businesses ranging from tracking solutions for baggage handling at airports to hospital logistics in the patient care process. Another, largely different, example that we observed involves a joint component platform for complex chemical and pharmaceutical substances:

> *The German-based specialty chemicals firm Degussa uses chemical agents and surface-active substances as joint component platforms across businesses: As the CEO states at the 2001 annual press conference"...Although organized on a decentralized basis, our researchers and development engineers clearly see the opportunities presented by cross-business unit collaboration. Thanks to the merger of Degussa-Hüls and SKW Trostberg, we have gained a wealth of substances and applications engineering know-how that can be deployed for other applications by completely different Business Units. For example, natural thickening agents developed for food applications by Business Unit A can be used to advantage by Business Unit B for cementitious oil drill sealing systems. Or did you know that some of the surface-active substances used in shampoos act as an excellent ingredient of lacquer formulae?" (Degussa 2001: 6)*

(2) Joint product platforms

Joint product platforms are joint intermediary products that different businesses finalize into different end products (different product versions based on the same platform).[88] In contrast to component platforms, product platforms are more specifically tailored to a certain class of end products and are usually "closer" to the final product. Joint product platforms are frequently employed in the automobile industry:

> *The German automobile firm Volkswagen (VW) provides a good example. The firm consists of the three different businesses (car brands) 'VW', 'Audi' and 'Skoda'. Across these businesses, VW leverages joint product platforms for different sizes of cars (small, medium, large), which include all major technical components such as engine, power train, steering, and electronics. For instance, the car models "VW Golf", "Scoda Octavia" and "Audi A3" are all based on the same joint product platform. The businesses only modify the interior and exterior to differentiate the final product.*

While joint component and joint product platforms are traditionally regarded as means to reduce costs, managers are increasingly emphasizing their synergistic contribution to growth. As a corporate controller of VW reiterated:

> *"The benefit of our [product] platform concept is not only cost reduction. While increased efficiency is the enabler, the platform concept allows us to offer a range of different cars for specific customer segments (...) permits us to incorporate more innovation, (...) and dramatically increases our time to market. (...) These are all benefits of the platform approach, which lead to profitable sales growth." (E39)*

[88] This can be compared to making a pizza: The joint product platform is the pizza dough and the different cooks that finalize the pizza are the businesses.

Similarly, referring to component platforms, a manager of ElectroCorp's corporate technology unit explained:

> *"Technology platforms can shorten new product development times dramatically. This helps to bring innovations to the market quickly, which means that we may profit from advantages of a first-mover or fast-follower. (...) They help us to leverage the full growth potential of technologies such as RFID that are beneficial to a number of our businesses in a coordinated way." (S22: 1)*

In summary, joint development platforms may lead to growth synergies by enabling more variety and thus higher levels of differentiation, reducing time to market and increasing the rate of innovative offerings of the businesses of the firm.

7.3 Joint market development

Joint market development denotes the synergistic development of *new markets* across businesses with *existing offerings*. We observed two types of joint market development in multi-business firms: (1) the joint development of new geographical market segments and (2) the joint development of new market segments with common customers.

7.3.1 Joint development of new geographical markets

MBFs increase their revenues synergistically by jointly developing new geographical markets. We observed that MBFs do so in two different ways: First, businesses entering new geographical markets take advantage of country knowledge, reputation, exclusive sales channels and stakeholder relations established by sister business units already operating in these regions to quickly ramp up their sales. For instance, GE's businesses jointly develop new geographical markets this way. A business that expands in a new region frequently uses country knowledge, locations, and local contacts of sister businesses that are already established. Second, several businesses sell their existing cross-business offerings together in new geographical markets. For example, Microsoft's businesses teamed up to offer its integrated office suite globally in several different markets, and ElectroCorp's businesses cooperate to sell their cross-business sector solutions in different regions.

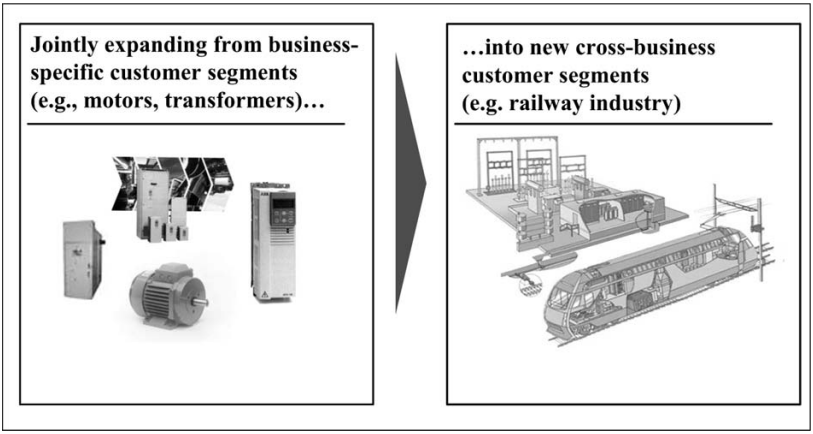
7.3.2 Joint development of new market segments with common customers

MBFs such as Siemens, ABB, and Unilever jointly expand into new market segments with common customers. Taking a horizontal perspective across businesses, MBFs scan the corporate market for segments with common customers that they are currently not targeting. Businesses then develop these segments by establishing a joint market presence for selling their individual offerings in the new segment under a common customer value proposition. A recent corporate growth initiative of the Swiss-based

power and automation technology firm ABB provides a good example for the joint development of new customer segments:

> *ABB consists of the five business units power products, power systems, automation products, process automation and robotics. In 2004, the firm started its corporate industry sector initiative, which focused its businesses on jointly developing new customer segments in industry sectors. The businesses established a joint market presence for common customers in industries such as railway, a market segment that they had not targeted before (see figure 7-3): "Our industry sector initiatives address untapped sales potential in common customer segments. For instance, when we analyzed the railway industry, we realized that there was a huge sales potential for several of our businesses that we did not exploit. Our businesses produce engines, transformers and other products that are all used in the railway industry. However, as we did not target the industry, our sales to railway customers were minimal. Under the industry sector initiative, several of our businesses systematically address common customers in the railway industry. They develop joint customer value propositions for the sector, build railway sales portals, assign dedicated sales managers, and so on. ... Our industry sector initiatives are highly successful. In some sectors, we have annual growth rates over 35%. In 2007, industry sector initiatives will be our primary engines for corporate growth." (E24)*

Figure 7-3: Joint expansion into new customer segments at ABB



Source: author

The joint development of new market segments may lead to growth synergies by increasing market coverage and improving market position. Businesses that extend their offerings into new customer segments (e.g., railway industry) extend their market coverage. The establishment of a joint market presence with a common customer value

proposition across businesses may improve the position of the businesses in the market. A common customer value proposition increases market impact and helps to build credibility in the new segment quickly. At ABB, isolated development efforts of individual businesses would not have drawn so much attention to their offerings in the railway industry. Furthermore, it conveys market knowledge and commitment to the customer. It suggests that the firm dedicates a critical mass of resources to the industry and that it is knowledgeable in the field. If only one business at ABB had offered products for the railway industry, customers might have questioned the overall commitment of ABB to the industry. With a coordinated market presence of several businesses, customers never doubted ABB's commitment. Finally, a joint market presence increases customer utility by providing benefits of one-stop-shopping. For instance, the common customer portal that ABB's businesses established for the railway industry supported customers in the selection of appropriate offerings and made sure that they did not get confused with ABB's diverse portfolio of offerings. To extend their customer value proposition in jointly developed market segments, businesses frequently start to develop dedicated cross-business bundles and integrated solutions once they have established their presence.

7.4 Joint diversification

Joint diversification denotes the synergistic expansion of several businesses together into *new markets* with *new offerings*. We observed two types of joint diversification in MBFs: the joint expansion into new markets and the joint creation of new markets.

7.4.1 Joint diversification through expansion into new markets

Joint diversification through expansion into new markets occurs if MBFs combine existing competencies across their businesses to develop new offerings for new markets. The corporate development path of the global fertilizer and salt-producing firm K+S illustrates the joint diversification through expansion into new markets:

> *K+S consists of the four businesses salt production, fertilizers and plant care, services and trading, and waste management and recycling. These businesses are linked in terms of their strategic, technical, and economic aspects. K+S continuously leverages resources between its businesses to diversify into new markets. For instance, the salt production and waste management & recycling businesses combined their resources to diversify jointly into the disposal market for highly toxic waste. The salt production unit provided their exploited salt domes as storage facilities and the recycling division provided the process expertise for disposing toxic waste.*

Assuming success, the joint diversification into new markets creates growth synergies by increasing sales and profits of the participating businesses.

7.4.2 Joint diversification through the creation of new markets

Joint diversification through the creation of new markets occurs if MBFs combine existing resources and competencies across their businesses to develop innovative new offerings that create a market that did not exist before. Recent cross-business growth efforts of the global electronics company Philips nicely illustrate joint diversification by creating new markets:

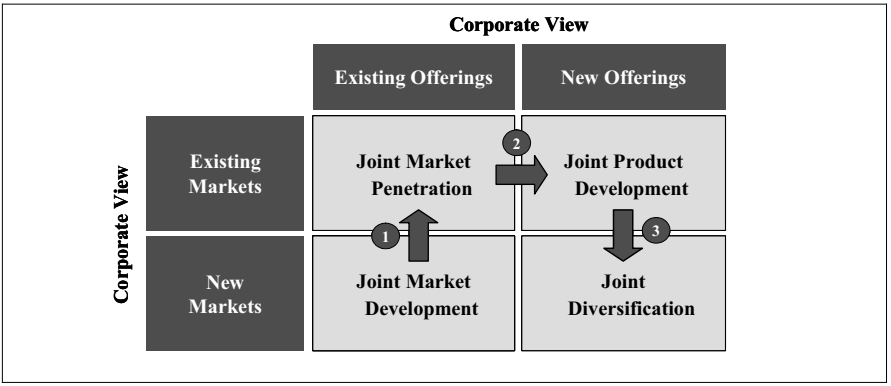
> *The MBF Philips consists of the four businesses 'domestic appliances and personal care',' lightning', 'medical systems', and 'consumer electronics'. In 2003, Philips initiated a corporate program called 'Towards One Philips', which had the objective to bring these businesses together to operate as a single united company. Part of this program was the adoption of the corporate business to a changing market. This effort resulted in the combination of resources from the medical systems and consumer electronics businesses to create a new market for personal healthcare devices. In a speech at the Tsinghua business school in China, Philips CEO Gerad Kleisterlee explained these joint diversification efforts across businesses:*
>
> > *„How do you adapt this company's business model to exploit changing markets worldwide? [One way is] the creation of entirely new categories that redefine borders and generate sustainable new growth. (...)*
> >
> > *Creating new categories is also about putting different parts of your business together in new and innovative ways. It should come as no surprise to learn we are drawing upon our leadership both in medical systems, and our deep understanding of consumer needs, to develop a wholly new 'health category' designed to meet a growing global need for personalized healthcare. (...)*
> >
> > *That's the backdrop to a new category, which we believe could be one of the largest of all 'emerging markets': Empowered consumers looking after themselves with the help of an array of smaller user-friendly machines straddling the world of medical diagnostics and consumer electronics." (Philips 2003)*
>
> *An example of a new personal healthcare product that the medical business and the consumer electronics business jointly developed is a fully automated mobile defibrillator. Medically untrained people can employ the defibrillator. The device is a great market success. It is now compulsory on airplanes and has been sold to many private households. It created a market that did not exist before.*

The joint creation of new markets can be especially attractive sources of growth synergies as they provide uncontested market spaces – blue oceans – that may permit the firm to earn high rates of returns (cf. Kim & Mauborgne 2005).

7.5 Corporate Growth Path: Timing of growth synergy strategies

We observed that several MBFs employ the four strategies for achieving growth synergies – joint market development, joint market penetration, joint product development, and joint diversification – in a specific sequence.[89] These strategies seem to form a corporate growth path (figure 7-4).

Figure 7-4: Corporate growth path: Timing of growth synergy strategies



Source: author

MBFs frequently start by stimulating their businesses to engage in joint market development. Once a solid market presence is established, firms start to penetrate this market through lead-sharing, cross-business bundling, and joint marketing initiatives. After gaining sufficient experience in cross-business collaboration and acquiring knowledge of the market domain (customer demands, competitors, etc.), firms often engage in joint offerings development. The development of joint offerings may include integrated cross-business solutions that logically extend existing product bundles, but also joint platforms or innovative fusions. Sometimes, close cross-business collaboration in the development of new offerings provides a basis for joint diversification by generating new perspectives on markets and resources. The case of ABB illustrates this growth path well:

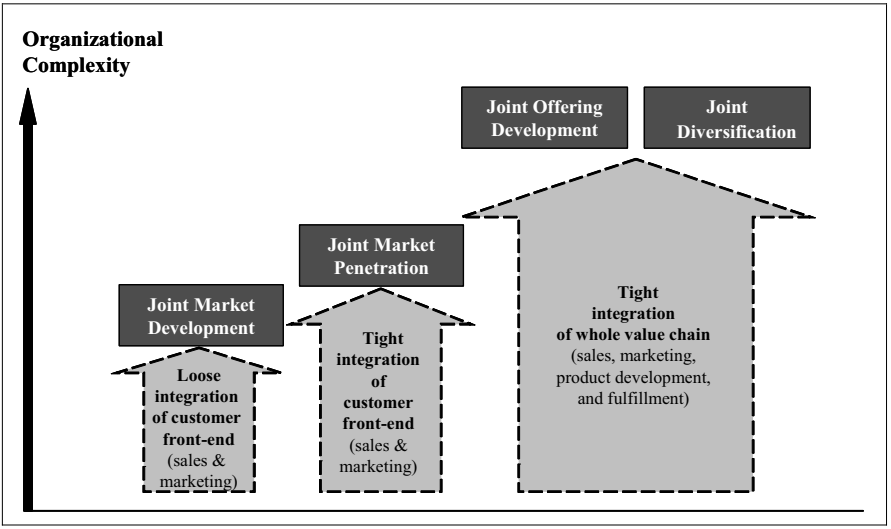
> *ABB started with joint market development. Several businesses established a joint presence in the railway market by establishing market transparency, formulating a common customer value proposition, setting up a web-based customer portal for the industry and loosely coordinating their sales efforts. Once they had established their market presence, they started to penetrate the market through systematic lead-sharing and bundling. In the future, they plan to develop integrated*

[89] Please note that the sequence presented here is the dominant one. However, other sequences are also possible.

cross-business solutions for the railway industry. Maybe, sometime, ongoing cross-business collaboration will lead to joint diversification.

This corporate growth path supports an incremental buildup of organizational complexity (number and intensity of cross-business links), which may support the successful implementation of growth synergy strategies (figure 7-5).

Figure 7-5: Influence of growth synergy strategies on organizational complexity



Source: author

Joint market development only requires a loose integration of the customer front-end across businesses. The organizational complexity for integration is comparably low. Businesses have to collaborate loosely in sales to establish and maintain a joint customer portal and in marketing to formulate a joint customer value proposition (marketing integration). Joint market penetration requires a tightly integrated front end and increases organizational complexity. Businesses have to collaborate tightly in sales and marketing for systematic lead-sharing and bundling (e.g., establishment and maintenance of account management systems, ongoing collaboration in marketing and sales for the development and sale of cross-business bundles). Joint offering development and joint diversification increase organizational complexity even further as they require a tight integration of value chains across businesses (e.g., integration of research and development, sales, marketing, and production to design, market, sell, and produce an integrated cross-business solution).

7.6 Summary and Discussion

In this chapter, we presented strategies for achieving growth synergies which are the result of some exploratory empirical work that included practitioner interviews, documentary data analysis, and a survey of 116 MBFs.

Several MBFs are currently pursuing these growth synergies. Our survey of 116 German, Swiss and Austrian MBFs showed that the majority of MBFs are actively pursuing growth synergies and that even more firms plan to do so in the future. The dominant strategies are joint offering development and joint market development. The highest expected increase is in joint market presentation and in joint diversification. Figure 7-6 provides an overview.

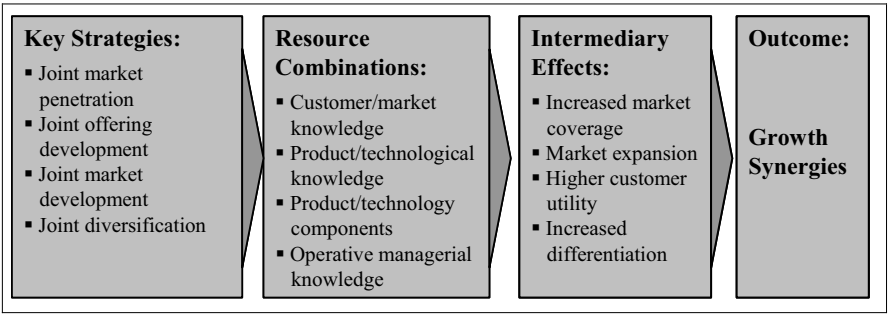
Figure 7-6: Frequency of strategies for achieving growth synergies (n=116)

Strategy	**MBFs pursuing strategy today**	**MBFs planning to pursue strategy in the future**	**% Increase**
Joint market penetration	51%	74%	45%
Joint offering development	58%	68%	17%
Joint market development	74%	84%	14%
Joint diversification	26%	42%	62%

Source: author

The discussion of these strategies in this chapter has provided a more concrete understanding of the abstract concept of growth synergies. In particular, we learned that growth synergies are achieved through various corporate product-market strategies (e.g., joint market penetration through bundling) that combine complementary resources (e.g., product knowledge, customer knowledge, and product components in the case of bundling) to increase market coverage, customer value and/or differentiation. Figure 7-7 (on the next page) depicts this logic.

Figure 7-7: Logic of strategies for achieving growth synergies



Source: author

We can derive three distinctive characteristics of growth synergies from these strategies:

(1) First, these strategies underscore that the primary sources of value in growth synergies are higher customer utility and differentiation (e.g., Porter 1985), economies of growth from expanding markets and share (e.g., Penrose 1959; Helfat & Eisenhardt 2004) and the reconfiguration of operative resources to match changing market opportunities (e.g., Schumpeter 1934, 1942; Eisenhardt & Galunic 2000; Eisenhardt & Martin 2000; Martin 2002). This sharply contrasts with the primary sources of value in efficiency synergies, which are cost savings resulting from economies of scope and/or agency and transaction advantages (e.g., Bettis 1981; Palepu 1985).

(2) Second, these strategies point out that the primary focus of growth synergies is external on markets and customers. This contrasts with the primarily internal focus of efficiency synergies on value chain functions (e.g., Porter 1985; Davis & Thomas 1993).

(3) Third, at least partially, these strategies emphasize the 'change' and 'explorative' aspect of growth synergies. Specifically the strategies of joint offering development, joint market development and joint diversification describe organizational change in that they imply the coevolution of the firm's businesses with changing market circumstances (cf. McKelvey 1997; Koza & Lewin 1998; Lewin & Volberda 1999; Martin 2002). For instance, the combination of resources across businesses to develop new products aims at adapting the resource configuration of the firm to new opportunities that emerge in the competitive landscape (cf. Eisenhardt & Martin 2000).

These observations set the stage for our next chapter, the in-depth case study of continuous growth synergy realization at ElectroCorp. ElectroCorp achieves these synergies through strategies of lead-sharing, cross-business bundling, and cross-business integration.

8 Case Study: The continuous realization of growth synergies

Following the single case study approach for investigating our empirical research question, this chapter presents an in-depth case report of the continuous realization of growth synergies at our research site ElectroCorp. It provides the context and basis for our interference of constructs and propositions in the next chapter.

After a brief discussion of the company background (8.1), we introduce the corporate 'One ElectroCorp' initiative (8.2), which aligned the firm for the continuous realization of growth synergies. Subsequently, based on our observation of this alignment, we provide in-depth descriptions of the strategic concept (8.3) and organization design (8.4) that contribute to continuous growth synergy realization. We close our case description with a summary (8.5).

8.1 Company Background

This section gives a brief overview of ElectroCorp (8.1.1), its corporate structure (8.1.2) and its corporate strategy (8.1.3).

8.1.1 Company Overview

ElectroCorp is a publicly listed, global electrical engineering and electronics company which operates in the information and communication, automation and control, power, medical and lightning business. It offers a comprehensive range of products, systems and services in these business areas. Approximately 80% of its business involves investment goods and infrastructure systems. Specifically, the firm consists of 13 moderately related businesses that share common customers and technologies. The markets and industries in which these businesses operate are overall moderately dynamic. In 2006, ElectroCorp had well over 400,000 employees and sales of over 80 billion €.[90]

8.1.2 Corporate Structure

ElectroCorp's primary corporate structure consists of the corporate executive committee, operative businesses and regional companies. The *corporate executive committee* is responsible for the strategic management of the combined firm. It determines the corporate priorities and policies and decides on the corporate strategy. This involves developing the corporate business portfolio, designing the corporate structure, leveraging cross-business synergies, conducting business reviews, approving business strategies, and assigning resources. Apart from a few exceptions, the executive committee has no operative responsibilities and assumes the role of a strategic investor. It fills

[90] Due to the requirement not to disclose the case we cannot provide detailed facts and figures about ElectroCorp's businesses and thus have to keep the company overview exceptionally brief.

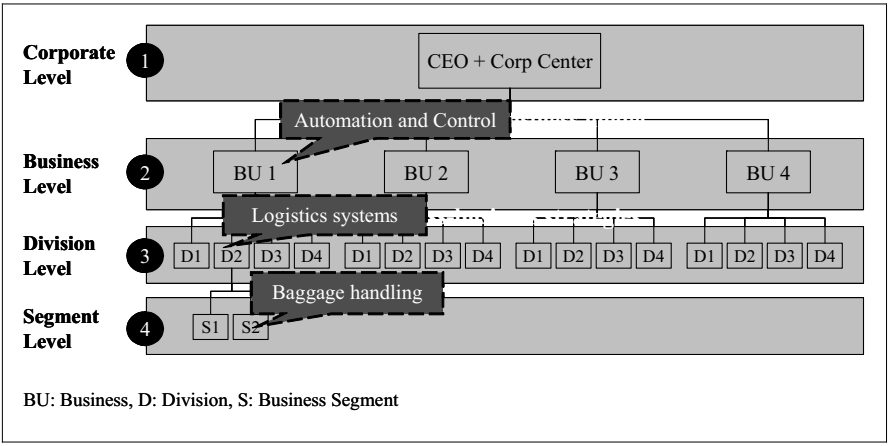
key company positions and coaches the businesses, regional companies and corporate departments through reviews and target agreements. Each member of the executive committee usually coaches a set of regions *and* businesses to balance these two primary strategic dimensions of the firm.[91]

The executive committee is supported in its governance and development tasks by a *corporate center* which executes guidelines coordinates and monitors functions, and supports the businesses and regional companies in implementing their business policies. Corporate center functions include 'corporate finance', 'corporate personnel', 'corporate technology', 'corporate development', 'corporate communications', and 'corporate information technology'. Transaction-oriented *central service units* that provide shared services to support the efficiency and cost-effectiveness of the company as a whole supplement the corporate center. Central service units include 'real estate services', 'professional education services', 'legal services', and 'accounting services'.

The 13 businesses and 180 regional companies form a matrix and jointly bear the operative business responsibilities of the firm. They operate with great autonomy within the boundaries and policies determined by the corporate executive committee. The *businesses* have the global entrepreneurial responsibility for their markets. They are responsible for earnings and are in charge of research and development, production, and corporate sales activities. ElectroCorp's 13 businesses (e.g., automation and control) are sub-divided into 90 *divisions* (e.g., logistics systems) and approximately 200 *business segments* (e.g., baggage handling) with individual profit and loss responsibility. The divisional level is ElectroCorp's lowest strategic planning unit. Figure 8-1 (on the next page) provides an overview of the management levels at ElectroCorp and gives an example.

[91] As a corporate manager explained, this double responsibility for businesses and regions "*puts the matrix in the head of the top executives.*" (S14: 2).

Figure 8-1: Management levels at ElectroCorp



Source: author

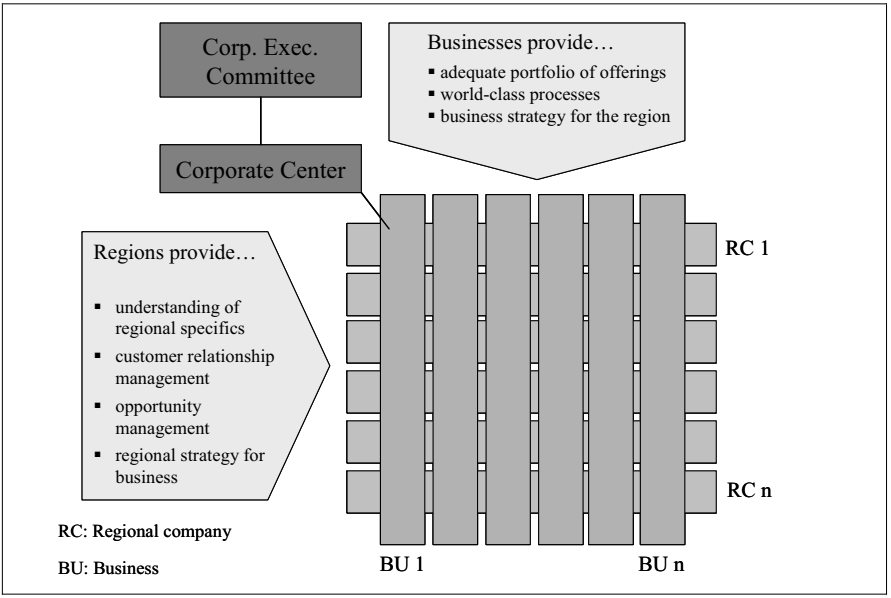
The *regional companies* implement the businesses' strategies within a specific geographical area. They have local entrepreneurial responsibility and a high degree of operational flexibility. Depending on local circumstances, regional companies differ in terms of competencies, legal form, and the nature and scope of their value-adding activities. Primarily, however, regional companies are responsible for local sales activities and closely related value added services.[92] The structure of regional companies varies based on their tasks. Usually they mirror the business structure, i.e. they have business specific sales departments.

The matrix of businesses and regional companies is linked through a *yearly planning and budgeting process*, which results in binding business target agreements on the business level.

[92] The number of ElectroCorp's regional companies was not publicly disclosed at the time of the case study.

Exhibit 8-2 illustrates ElectroCorp's corporate structure.

Figure 8-2: ElectroCorp's corporate structure (primary organization)



Source: Company presentation (P5), modified

ElectroCorp's corporate managers unanimously stress the benefit and importance of the matrix structure, which is argued to provide flexibility and local responsiveness. Furthermore, they emphasize the strong culture of 'decentralism'. There is a strong shared belief at ElectroCorp that businesses should be granted significant strategic and operational autonomy. Corporate budgets and corporate interventions are rare and executive management is cautious not to assume any operative responsibilities.

In summary, ElectroCorp is structured as a matrix organization with the two dimensions 'product' and 'region'. A separate corporate executive board 'outside' the matrix structure governs the firm by acting as a strategic investor and without any operative responsibilities.

8.1.3 Corporate Strategy

The objective of ElectroCorp's corporate strategy is to outperform its competitors in terms of returns, cash flows, and growth (profitable growth). To achieve this goal, corporate managers continuously focus organizational attention on vertical and horizontal optimization. *Vertical optimization* focuses on improving ElectroCorp's individual businesses through superior strategic positioning and operational excellence. Corpo-

rate managers strive to position their businesses in attractive markets with sustainable growth, high earnings potential, and low volatility. They govern them to attain (1) leading market and technology positions through acquisitions, co-operations, and divestitures and (2) operational excellence through innovation leadership, global presence, and world-class processes.

Horizontal optimization focuses on improving ElectroCorp's combined corporate potential through leveraging and developing cross-business synergies. Corporate managers continuously align the organization to realize efficiency synergies (e.g., shared service centers, common software licenses) and growth synergies (e.g., lead-sharing).

ElectroCorp drives and accentuates its corporate strategy through *corporate programs*, which are consistent sets of corporate initiatives for generating value through vertical and horizontal optimization. The current corporate program, which was initiated in mid-2004 and is to be executed by the end of 2007, has the overall objective to grow the combined firm at roughly twice the rate of the world's average gross domestic product (GDP). The three-year program contains four major corporate initiatives:

- *Performance and Portfolio* defines the necessary steps for creating a portfolio that enables ElectroCorp to achieve sustainable profitable growth at twice the global GDP rate. It focuses on solving a number of strategic business reorientations, on establishing measures to ensure that businesses reach their target margins, and on the development of a portfolio that receives 'tail-wind' from megatrends.
- *Operational Excellence* focuses on improving the existing portfolio through driving innovation (growth), customer focus (growth), and global competitiveness (efficiency).
- *People Excellence* emphasizes the importance of leadership and human resources. It sets standards for selecting, evaluating, leading, and developing employees to achieve a high performance culture, to increase the global talent pool, and to strengthen expert careers.
- *Corporate Responsibility* ensures that ElectroCorp belongs to the best-in-class in corporate governance, sustainability, and corporate citizenship.

Since 2004, the executive committee has constantly increased its focus on horizontal optimization. Under the customer focus initiative of the operational excellence program, it initiated the *One ElectroCorp* (OneEC) initiative that had the goal to foster horizontal collaboration between businesses and regional companies for the ongoing realization of growth synergies. This initiative is at the focus of this chapter.

8.2 'One ElectroCorp' – Alignment for Growth Synergies

This section discusses the objective (8.2.1), background (8.2.2), initiation (8.2.3), and success (8.2.3) of the OneEC initiative. It sets the stage for our in-depth description of the strategic concept and organization design that follows in the subsequent sections and is at the heart of our investigation.

8.2.1 Objective of the One ElectroCorp initiative

The OneEC initiative is ElectroCorp's organic cross-business growth program and has the objective to align ElectroCorp for the continuous realization of growth synergies. The initiative aims to support profitable growth by increasing the penetration of common customers (increased market share) and providing industry specific cross-business solutions that leverage the unique portfolio of offerings across businesses (increased market coverage and differentiation). The overall objective is to bring ElectroCorp's unique portfolio of products and services to customers to solve their problems:[93]

> *"One ElectroCorp is a cross-business growth initiative ... The idea is to increase sales and profits through innovative cross-business solutions and a better focus of our businesses on selected groups of common customers [cross-business customers] ... It is the breadth and depth of our product and service portfolio that differentiates us from our competitors ... With One ElectroCorp we aim to collaborate across our internal businesses to deliver that advantage to our customers." (S14: 3)*

8.2.2 Background of the One ElectroCorp initiative

Three forces triggered the OneEC initiative: (1) stagnating growth, (2) changing customer needs, and (3) severe capital market pressure.

(1) Stagnating growth

In 2003, ElectroCorp was not growing. Corporate sales were decreasing by almost 12% (compared to 2002). Furthermore, a book-to-bill ratio[94] below one indicated underutilized productive capacity and further sales stagnation in the near future. The growth problem was aggravated by sales losses from several large divestments in the course of portfolio optimization. ElectroCorp's growth issues had three main causes:

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[93] We will provide a detailed account of the OneEC strategy in section 8.3.

[94] The book-to-bill ratio is the technology industry's demand-to-supply ratio for orders on a "firm's book" to number of orders filled. It equals the dollar amount of goods that are booked for delivery divided by the dollar amount of those that have already been billed for. The ratio indicates whether the company has more orders than it can deliver (if greater than one), has the same number of orders that it can deliver (equals one), or has fewer orders than it can deliver (under one).

First, *continuous intense competition* was endangering market share and profitability.[95] In 2003, most of ElectroCorp's businesses were operating in highly competitive markets. Intense competition made it increasingly difficult to differentiate products, and commodity pressures, including price wars, were on the rise. Strong growth aspirations of major competitors indicated that competition would even intensify in the future. Competitors at the time were focusing aggressively on growth and had goals to achieve compound annual growth rates between 10% and 30%.

Second, some of ElectroCorp's businesses were operating in regionally *saturated markets* with flat or negative growth rates (mature markets). Their vertical growth potential within their business boundaries was limited. As one country manager stated:

> *"It is really hard for us to grow in some of our markets ... growth in these markets is low and we already have high market shares for most of our products ... It is difficult to increase sales with existing customers in these markets and almost impossible to win new ones without endangering profitability ..." (S33)*

Third, a *lack of internal sales coordination* across ElectroCorp's businesses annoyed customers and became an increasing competitive disadvantage as many competitors had implemented more integrated cross-business sales approaches. As a corporate manager observed:

> *"Sometimes, our businesses are approaching the same customer without coordinating each other ... this is inconvenient for our customers ... they have to deal with different contact persons ... it is also bad for our business ... in the worst case it leads to internal price wars in front of our customers ... and certainly we do not present the full advantages of our corporate portfolio [of products and services] to our customers in that way." (S3: 1)*

The lack of sales coordination was not only a nuisance for customers. Due to insufficient cross-business coordination in the acquisition of large projects, ElectroCorp's businesses failed to capture valuable opportunities. For instance, ElectroCorp did not utilize its full sales potential when new airports or power plants were built, particularly in the context of big events such as the Olympic Games.

(2) Changing customer requirements

To address the issue of stagnating growth, ElectroCorp's top management reacted swiftly and initiated a dedicated growth program at the end of 2003. The program was termed the '*customer focus program'* and supported businesses and regions in achiev-

[95] An internal ElectroCorp analysis suggested that profitability is strongly correlated to market position in ElectroCorp's businesses. Only those businesses occupying the top two positions in the market can expect to be profitable in the long-run.

ing profitable growth. The program was driven by ElectroCorp's internal consulting unit and consisted of the three initiatives "winning customers", "service", and "cross-selling". The '*winning customers initiative*' focused on vertical sales growth within businesses. The objective was to increase the penetration of existing customers and to win new customers on a business level. The '*service initiative*' focused on the expansion of revenues from product and operations related services in businesses and regions. The '*cross-selling initiative*' focused on improving corporate account management to better address growth synergies. The cross-selling initiative specifically addressed the lack of internal sales coordination and helped businesses and regions operating in saturated markets to increase their sales through better penetrating common customers (mainly through lead-sharing).

As the 'customer focus program' progressed, corporate managers working on the 'cross-selling initiative' realized that the requirements of customers were changing. Due to globalization, technology disruption and networked operations, ElectroCorp's customers were facing rapid changes in their markets and had to cope with an increasingly complex environment. A corporate manager illustrated these changes with the altered role of hotel owners in the hospitality industry:

> *" ... just imagine the core competency hotel owners have to have to be a perfect host to their guests ... There was not much technology in a guest room 30 years ago. Perhaps a power plug and some lights? Today, guest rooms have sophisticated telecommunications equipment, internet, entertainment systems, video-on-demand, fire safety, security, access systems, room climate control, ambiance lighting, etc. And, how many of these complex systems just arrived in the last couple of years?" (S5: 2)*

The increased dynamism and complexity of markets changed the requirements and buying behaviors of ElectroCorp's customers. Customers were looking for more than just single products from their suppliers. They increasingly demanded solutions to their problems and advice from a trusted partner. The solutions usually consisted of offerings from several of ElectroCorp's businesses.

(3) Severe financial market pressure

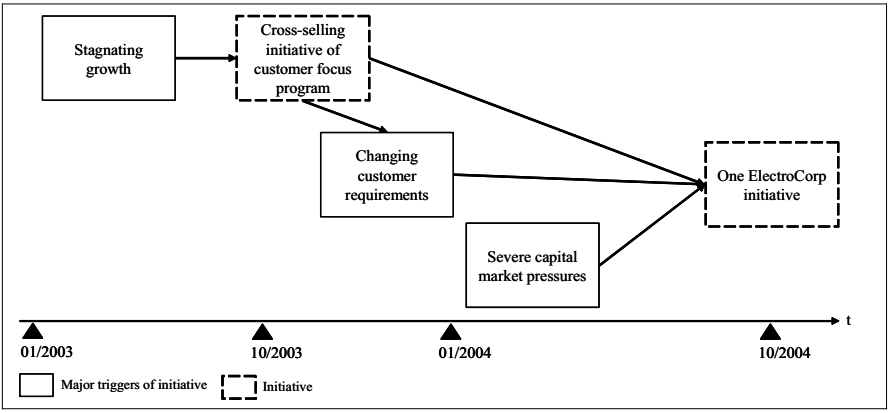
In mid-2004, financial markets were exerting increasing pressure on ElectroCorp. Financial markets valued the company below major competitors. While ElectroCorp had a price to earnings (P/E) ratio of 16 and market value to sales (MV/S) ratios of 0.7, competitors were valued at P/E ratios of 20 and MV/S ratios of 2.3. Furthermore, analysts calculated a significant conglomerate discount, suggesting that the combined company was destroying rather than adding value.

8.2.3 Initiation of the One ElectroCorp initiative

Corporate growth problems, changing customer requirements and the severe pressure from the financial market all underlined again the importance of growth synergies. First, the realization of growth synergies could compensate weak vertical growth rates of the firm's businesses. Second, the increasing demand of customers for cross-business solutions indicated increasing growth synergy potential. Finally, growth synergies could reduce the conglomerate discount, which was a heavy burden on ElectroCorp's corporate executives.

Thus, corporate executives decided to increase the corporate focus on growth synergies. Realizing that the regional cross-selling initiative was not sufficient to align the whole organization for the continuous realization of growth synergies, the CEO formally initiated the OneEC initiative in October 2004. Figure 8-3 provides an overview of the timeline and major developments that led to the OneEC initiative.

Figure 8-3: Timeline and major developments that lead to the OneEC initiative



Source: author

The objective of OneEC was to establish a strategic concept and organizational design for the ongoing realization of growth synergies at ElectroCorp. To support the initiative and ongoing synergy realization, a dedicated "One ElectroCorp" department with over thirty full-time managers was founded at the corporate center. The OneEC department reported directly to the CEO. It was supplemented with an advisory board[96], which was headed by the CEO and which consisted of selected executive board members, business unit heads, regional heads and the head of corporate development. The advisory board convened four times a year to discuss the direction of the initiative.

[96] An advisory board is a group of individuals who offer advice, inform or notify. An advisory board differs from an elected board in that they do not have any oversight responsibilities.

Paul Patron, who also led the customer focus program, was selected to head the One EC initiative. Paul Patron had been with ElectroCorp for over 25 years and had held various managerial positions. He was president of several business segments and managing director of a regional company. Paul Patron was well connected throughout the company and had a strong record of accomplishment.

It should also be noted that the CEO was greatly committed to the initiative and was involved to a greater extent in the OneEC initiative than in any other corporate initiative. He was also well informed on the subject of cross-business synergies and had profound experience in synergy management. Prior to his appointment, he initiated and led a successful regional cross-selling initiative, which can be regarded as the forerunner of One EC.

8.2.4 Success of the One ElectroCorp initiative

Over the next months, the OneEC department designed a strategic concept and an organization design blueprint for continuous synergy realization and implemented it. The strategic concept and organization design had been highly successful in that they facilitated the continuous realization of growth synergies at ElectroCorp.

After the alignment of the organization, cross-business sales growth increased by over 40% annually in 2005 and 2006[97], even as business-specific (vertical) sales were stagnating. As profits also increased with cross-business sales (profitable corporate growth), growth synergies were realized. Since the beginning of 2005, over one hundred profitable growth synergy projects have been completed. Several of these cross-business projects have received favorable customer comments, which indicates that they increase customer utility and differentiate ElectroCorp from its competitors.

Rather subjectively, the overwhelming number of interviewed managers confirmed that the initiative has met its objective, the successful alignment of the firm for the continuous realization of growth synergies. On average, they rated the outcome of the initiative with a 7.5 on a 10-point Likert scale (1=low, 10=high).

In the following two sub-chapters, we will describe the successful strategic concept (8.3) and the organization design (8.4) that the members of the OneEC initiative implemented for the continuous realization of growth synergies.

[97] This number reflects the sales increase with corporate customers in cross-business markets that were targeted by the OneEC initiative. This sales increase is likely to be linked to the organizational alignment for the continuous realization of growth synergies, i.e. to the strategic concept and organization design that the OneEC initiative implemented, because corporate customers and cross-business markets that were not targeted by the initiative (i.e. for which strategy and design were not adjusted) did not grow at such high rates.

8.3 Strategic Concept for the continuous realization of growth synergies

The strategic concept that ElectroCorp's managers established for the realization of growth synergies was based on the central objective to increase profitable corporate growth by bringing the firm's unique portfolio of offerings to common customers across businesses for solving their problems. This objective was specified through norm strategies for deriving value from growth synergies (8.3.1) and a focus on profitable cross-business domains (8.3.2).

8.3.1 Norm Strategies for achieving growth synergies

Corporate managers defined 'norm strategies' for the realization of growth synergies that they recommended to businesses and regions. These strategies marked a shift in ElectroCorp's corporate strategy from a vertically focused product company towards a horizontal solution provider. We first explain and compare the different norm strategies and then discuss the corporate shift towards solutions.

(1) Characteristics of norm strategies

Corporate managers defined three norm strategies for the realization of growth synergies: (a) lead-sharing, (b) cross-business bundling, and (c) cross-business integration. In the following, we briefly explain the characteristics of these strategies and discuss their value propositions. The value proposition links these strategies to corporate advantage.

(a) Lead-Sharing

Lead-sharing includes sharing and coordinating customer contacts and sales opportunities across ElectroCorp's businesses. The objective is that businesses inform each other about fruitful sales opportunities. Furthermore, businesses are supposed to coordinate with each other to present 'one-face to the customer' whenever possible.

Lead-sharing generates additional *value* for ElectroCorp's *customers* by increasing their convenience and reducing their buying costs because customers only have to deal with a few central contacts.

Lead-sharing increases ElectroCorp's *company value* through higher sales and lower selling costs. Higher sales result from cross-selling offerings and higher customer loyalty. Sales costs are reduced due to the better utilization of customer relationships – not all businesses have to incur the costs of building them.

(b) Cross-business bundling

Cross-business bundling involves bringing separate and independent but related offerings from different businesses together into consistent 'packages' for common customers. Bundles provide solutions for specific customer problems. In contrast to lead-sharing, where offerings from ElectroCorp's businesses are suggested to the customer ad-hoc, cross-business bundles are specifically designed and marketed as a 'whole'.

From bundling, ElectroCorp generates *value* for its *customers* by reducing complexity and lowering customer search and transaction costs. Bundling eases and accelerates the customer search for a solution, simplifies their sourcing process through 'one-stop shopping', and provides a single point of contact for installation and service. Bundling addresses the changing requirements of ElectroCorp's customers resulting from a more dynamic and complex environment, which we outlined before. Thus, bundling offers a strong customer value proposition.

With cross-business bundles, ElectroCorp aims to achieve differentiation advantages over its competitors that increase its *company value*:

> *"The breadth of our portfolio is one of our key advantages and a unique value proposition of One EC… few companies in the world can provide and deliver the range of products, systems, and services that we do … few competitors have the track record, financial stability and long-term commitment that we have … We can offer our customers unique bundles that most of our competitors cannot match … even through partnering." (S5: 2)*

ElectroCorp's managers emphasized that unique product bundles lead to profitable sales growth (more projects and higher prices) and higher customer loyalty.

(c) Cross-business integration

The objective of cross-business integration is to integrate offerings from several of ElectroCorp's businesses into coherent solutions for specific customer problems. As a solution provider, ElectroCorp acts as a strategic partner for its customers and focuses on optimizing customer core processes for enhancing their competitive strength. The integration strategy extends bundling. In addition to bundling, which only markets complementary offerings together, integration focuses on the technical assimilation of the offerings. Technical integration involves the development of coherent systems and the harmonization of interfaces, usually through information technology.

The *customer value proposition* of cross-business integration is based on decreased complexity, lower total costs of ownership, long-term customer commitment, and reduced customer transaction costs. While similar to that of bundling, the value proposition of integration is much stronger. Customers buying integrated solutions benefit

from better-aligned components that optimally support their business processes. Furthermore, integrated solutions reduce the total costs of ownership of customers and their implementation time and risk, which bundling does not.

Similar to bundling, cross-business integration enables ElectroCorp to increase its *company value* through differentiation advantages. However, these advantages do not only stem from the firm's unique portfolio of offerings but also from its capability to integrate these offerings into seamless solutions better than other firms can. Furthermore, ElectroCorp's risk diversification and financial stability permits it to make long-term commitments that smaller and more focused competitors cannot credibly make.

(2) Comparison of norm strategies

The three norm strategies differ with respect to customer benefits and company value. Figure 8-4 provides a summary and a comparative overview.

Figure 8-4: Comparison of norm strategies for achieving growth synergies

Synergy Strategy	Description	Customer Benefits	Comparable Company Value Potential
Lead-Sharing	➲ **Sharing of existing customer contacts and information between businesses regarding sales opportunities**	➲ **One-face to the customer** ▪ Reduced buying costs ▪ Increased convenience	➲ **Moderate** Sales increase but low differentiation advantages in competitive setting
Cross-business bundling	➲ **Offering of joint packages to allow customers "one-stop shopping"**	➲ **One-stop shopping** ▪ Consistent offering solving a specific customer problem ▪ Reduced vomplexity ▪ Reduced buying costs and time ▪ Increased convenience	➲ **High** Sales increase and differentiation advantages of portfolio
Cross-business integration	➲ **Developing technically integrated cross-business solutions to support customers optimizing their business processes**	➲ **Competitive strength** ▪ Unique offering enhancing the customer's competitive strength ▪ Reduced complexity ▪ Increased convenience ▪ Reduced buying costs and time ▪ Reduced total cost of ownership ▪ Long-term commitment of solution provider	➲ **Highest** Sales increase and differentiation advantage of unique portfolio *and* of unique integration capabilities

Source: author

All norm strategies have clear benefits for ElectroCorp's customers: Through lead-sharing, customers benefit from improved coordination in their buying process ('one-face to the customer'). Cross-business bundling provides customers with opportunities to reduce their complexity through 'one-stop shopping'. Integrated cross-business solutions help customers to increase their competitive strength by optimizing their core business processes. The customer value proposition increases from lead-sharing over bundling to integration. Consequently, the value potential ElectroCorp can derive from lead-sharing is moderate, that of bundling is higher and that of integration is highest. Lead-sharing only offers moderate value potential for ElectroCorp as most competitors already provide 'one-face' to their customers. Furthermore, ElectroCorp can only leverage the full differentiation advantage of its unique portfolio through bundling and integration. Integration enhances differentiation even more than bundling as it permits ElectroCorp to leverage its (distinctive) technical integration skills.

ElectroCorp's corporate managers emphasized that lead-sharing, bundling and integration are not mutually exclusive but complementary: Businesses can engage in lead-sharing for customers without offering them solutions. Similarly, they might bundle some offerings and integrate others depending on the specific market situation.

A further point that corporate managers stressed was the focus on replicable offerings in bundling and integration. If bundled or integrated solutions are sold to several customers, their development costs – which are significant – can be spread over a larger base and profitability improves. To develop replicable and innovative solutions that lead to first-mover advantages and can be sold repeatedly over the complete market cycle, corporate managers recommended their businesses to cooperate closely with lead customers. Lead customers are users that face needs that will become general in a marketplace – but they face them months or years before the bulk of the marketplace encounters them. ElectroCorp specifically defined lead customers as acknowledged innovation leaders in their respective industries or growth leaders in emerging market segments that apply advanced technology, services, processes, and business models.

(3) Corporate business model of solution provider

Over time, the ongoing realization of growth synergies led to the evolution of a corporate business model that positioned ElectroCorp as a solution provider. Bundling and integrating offerings across businesses to solve customer-specific problems meant that ElectroCorp was complementing the rather product centric vertical offerings of its businesses with horizontal solutions.

Corporate managers view cross-business solutions as a way to reduce the commodity pressures that several of ElectroCorp's businesses are facing in their mature markets. Furthermore, solutions are seen as a way to guard ElectroCorp from newly emerging corporate level competitors from the IT Industry. Firms such as IBM threaten Electro-

Corp's businesses through complementing their IT services with shop floor products from third party providers and integrating them into customer solutions that they sell to executive managers. ElectroCorp's businesses produce many of the shop floor products that IT firms bundle with their offerings (e.g., automation products, communication equipment). Consequently, the danger is that they might lose their direct contact to the customer and that their products are degraded to exchangeable components. Cross-business solutions may help ElectroCorp's businesses to prevent this from happening.

In stimulating businesses to pursue cross-business solutions, corporate managers are careful to emphasize that solutions are complementary offerings and not substitutes for products. They are well aware that an exclusive focus on solutions might lead to a loss of ElectroCorp's capability to produce superior products in the long term:

> *"Innovative products are one of our core strengths, which differentiates us from our competitors. We still make over 80% of our revenues from products. Solutions are important ... but make no mistake about it ... without good products there will never be good solutions. Products are and will always be our backbone. If we focus only on solutions, we will lose our ability to develop superior products." (S2: 2)*

Furthermore, corporate managers recognize that solutions are not a viable strategy for all markets. They point out that similar markets can have huge global differences. For example, a corporate manager explained that the buying behavior of customers in the utility industry varies with the economic development state of the regions. The sustained economic growth in China and Southeast Asia increases the regional energy demand, which is met through new power plants. Customers in these markets place a high value on time and demand integrated solutions to reduce complexity and set-up time. In more saturated markets such as Europe and the United States, energy customers make replacement investments and usually do not demand solutions.

8.3.2 Cross-business domains for the realization of growth synergies

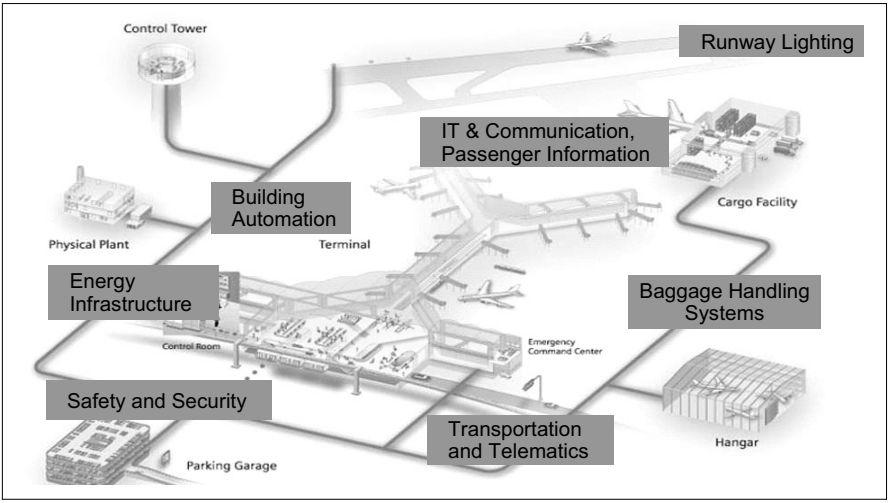
In addition to suggesting norm strategies, the strategic concept developed by corporate managers determines cross-business domains for the continuous realization of growth synergies. The domains are product-market segments within ElectroCorp's corporate scope that provide significant potential for growth synergies through lead-sharing, bundling, and integration. ElectroCorp's corporate managers focused the realization of growth synergies on selected sectors with defined key customers. We first explain the characteristics and benefits of the sector concept and then describe how corporate managers selected specific sectors.

(1) Characteristics and benefits of sector concept

A sector is an industry segment that is characterized by a group of end customers with similar core business processes. ElectroCorp focuses the realization of growth synergies on 18 sectors. These include sectors such as ‘airports’, ‘hospitality’, ‘oil and gas’, and ‘automotive’. For these sectors, businesses are suggested to offer cross-business solutions.

For instance, several of ElectroCorp’s businesses collaborate to provide integrated logistics and infrastructure solutions for airports. These include passenger solutions with biometrical recognition, mobile check-in and all-round security systems, handling solutions with baggage conveying systems, security checks and baggage tracking, and control solutions that link all control stations in the airport to a central control room. Figure 8-5 gives an overview of airport solutions.

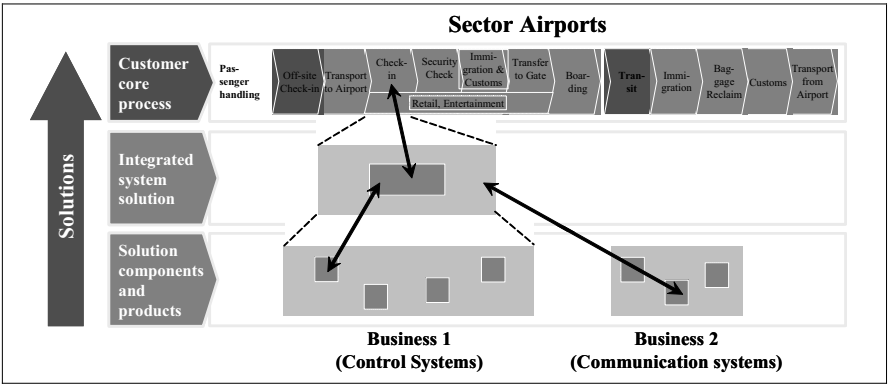
Figure 8-5: Cross-business solutions for the airport sector



Source: Company presentation (P9)

The major feature of sectors is that they define markets in terms of end customer needs. They provide an understanding of the customer’s value chains and core processes that is necessary to combine products from different divisions into cross-business solutions. Figure 8-6 on the next page illustrates this principle. It shows how products from different businesses are combined into solutions for customers in the airport sector: Components from ElectroCorp’s control systems business and the communication systems business are integrated into a system solution (e.g., mobile check-in) for the ‘check-in part’ of the customer core process ‘passenger handling’.

Figure 8-6: Combination of products into solutions along customer core processes



Source: Company presentation (P9), modified

At the beginning of the One EC initiative, most businesses lacked a customer-centric view. They had product-centric market segmentations that only provided them a vertical perspective. This made the continuous realization of growth synergies, which requires a horizontal perspective, difficult. For instance, the businesses focusing on the market for control systems and on the market for communication systems did not realize that they had opportunities for growth synergies in the airport sector. Furthermore, they lacked the knowledge of the core business processes in the industry (e.g., passenger handling process) which is necessary to design joint solutions for implementing these opportunities. The sector perspective addressed these issues and supported businesses in the realization of growth synergies. Over time, corporate managers realized that the cross-business view on sectors also contributed to the elimination of white spots in the product portfolio and to increasing innovation. The joint view on end-customers along sectors helped businesses to identify profitable 'white spots' in their (joint) product portfolios that they had not recognized before. Furthermore, the sector view and the combination of competencies across businesses led to the development of innovative new offerings, which expanded ElectroCorp's overall market.

To foster the development of repeatable solutions and to enable an efficient penetration of the sector, ElectroCorp's managers determined key customers in each sector on which businesses are supposed to focus their sector activities. Key customers are ElectroCorp's strategically most important customers and are usually lead users in their respective industries.

In aggregate, the sector concept defines key-customer sector clusters for the continuous realization of growth synergies. For each sector, the participating businesses are encouraged to develop sector strategies that include roadmaps for the cross-business portfolio, solutions, and the penetration of key customers.

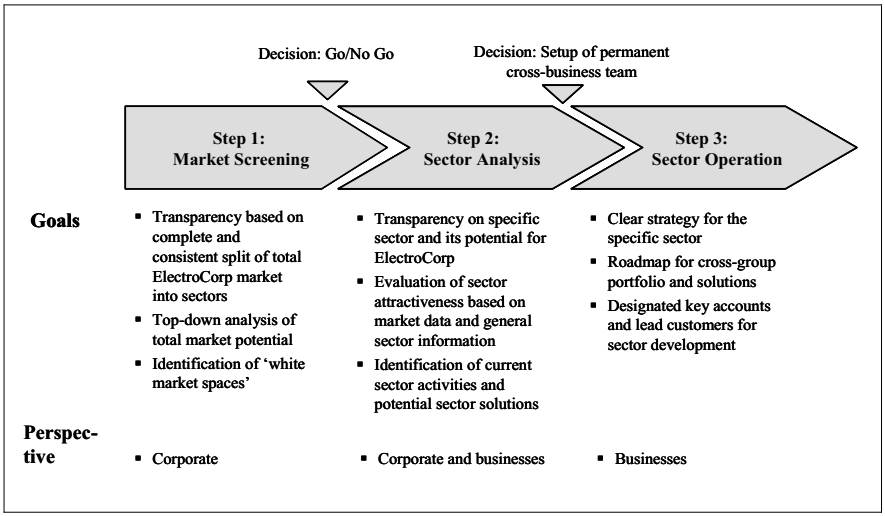
(2) Definition and selection of sectors

The definition and selection of profitable sectors for growth synergies was a major effort of the OneEC initiative:

> *"One of the major strategic tasks ... was to create transparency on sectors and customers ... When we started [with One EC], we did not really know in which markets we had opportunities for synergies between our businesses ... There was no common approach to define cross-business markets ... Also, our view of the customer was driven by a single-business perspective ... and strong product orientation ...We did not have a sufficient understanding of our customer's core processes and improvement potential to design cross-business solutions." (S4: 2)*

Corporate managers followed a three-step process to identify and establish sectors (see figure 8-7).

Figure 8-7: Identification and establishment of profitable sectors



Source: Company presentation (P2), modified

In a first step, they *screened the overall market* to identify all sectors within ElectroCorp's scope and to address white spaces in the current market definition. In a next step, they *analyzed the relevant sectors* to identify the ones which were attractive for cross-business activities and thus had growth synergy potential. Finally, they selected the most attractive sectors and delegated the *development of sector strategies* for lead-sharing, bundling, and integration to the businesses which were closest to the market.

To identify the sectors within ElectroCorp's scope, corporate managers screened the

market top-down from an outside-in perspective. Using NACE[98] codes, they determined that ElectroCorp performed economic activities in 48 segments. To reduce complexity, in a next step, they aggregated these activities into 20 sectors and a number of sub-sectors. Criteria for aggregating activities into sectors were similarity and connection of core processes in the value chain, and end-customer similarity. The 20 sectors were then analyzed in greater depth to spot attractive ones. The analysis included a quantitative market overview, business drivers and market trends, customer structure and characteristics, the competitive landscape, and ElectroCorp's current position in the sector. Figure 8-8 gives an overview.

Figure 8-8: In-depth sector analysis

Topic	Covered Items
Quantitative market overview	Total market volume, compound annual market growth rate (CAGR), ElectroCorp's relevant spending based on current portfolio, volume and CAGR by region
Business drivers and trends	General trends that impact the sector such as new technologies, changes in legislation, demographic changes. Sector specific trends such as business drivers for the sectors, changes in customer behavior, new business models, deregulation and privatization tendencies, regional trends
Customer structure and characteristics	ABC analysis of the sector, customer spending and buying behavior, further customer segmentation, e.g. by company size or business focus (if helpful).
Competitive landscape	Competitor profiles including key figures, sector strategy, and offerings for and references in the sector. Overview of competitive landscape in the sector, e.g. Porter's five forces
Own portfolio and position	Solution map for products, solutions, and services for the sector; customer value proposition; identified current portfolio gaps; sales of the businesses in the sector in the last year

Source: Company presentation (P2), modified

Corporate managers focused cross-business activities on sectors with the highest contemporary and future profit potential for ElectroCorp.[99] For these sectors, key accounts and lead customers were designated. Furthermore, dedicated cross-business teams participating in the sector developed fine-grained sector strategies that included detailed solution roadmaps.

[98] NACE stands for 'Nomenclature générale des activités économiques dans les Communautés Européennes'; it is the common nomenclature for economic activities in Europe.

[99] The market definition of these sectors (sector split) was binding for all of ElectroCorp's businesses and regions.

In the corporate assessment of future profit potential of sectors, special attention was given to megatrends. Megatrends indicate a widespread trend of major impact which drives markets. Corporate managers at ElectroCorp focused on the two megatrends "changing demographics" and "growth of cities worldwide". The first trend indicates that today's population of more than six billion will increase to eight billion by 2020 and that life expectancy will increase in industrialized countries as well as in emerging markets. The second trend suggests that, in the future, the majority of humanity will be living in cities including so-called "megacities" with more than ten million inhabitants each. Based on trend reports, ElectroCorp expects that by 2015 there will be 22 megacities worldwide. Corporate managers derived consequences from these megatrends for ElectroCorp's businesses and cross-business growth activities (see figure 8-9).

Figure 8-9: Megatrends and business consequences

Shortening of natural resources: Fossil fuels will run out over the next few decades. Current projections forecast the exhaustion of crude oil – today's primary energy resource – in 60 years. As a consequence, new exploitation methodologies and technologies are needed in order to seek and exploit new fossil fuel sources.

Growing need for environmental care: Climate change and rising pollution, especially in megacities, are now a reality. This trend increases the speed of development of alternative energy resources, implementation of environmental friendly production processes and gentle handling of existing resources.

Growing demand for safety and security: With new threats from international terrorism, cyberspace virus attacks, and increasing social gaps due to urbanization, the government sector, businesses, and individuals are making safety and security high priorities. Ensuring a safe and secure world and society is fundamental for an enjoyable life.

Growing demand for healthcare/eldercare: An aging population and the "silver market" in industrialized countries require new eldercare services and products. Simultaneously, infectious diseases (HIV or SARS) in developed and rural areas demand affordable solutions. Bringing costs down while improving the quality of care is paramount.

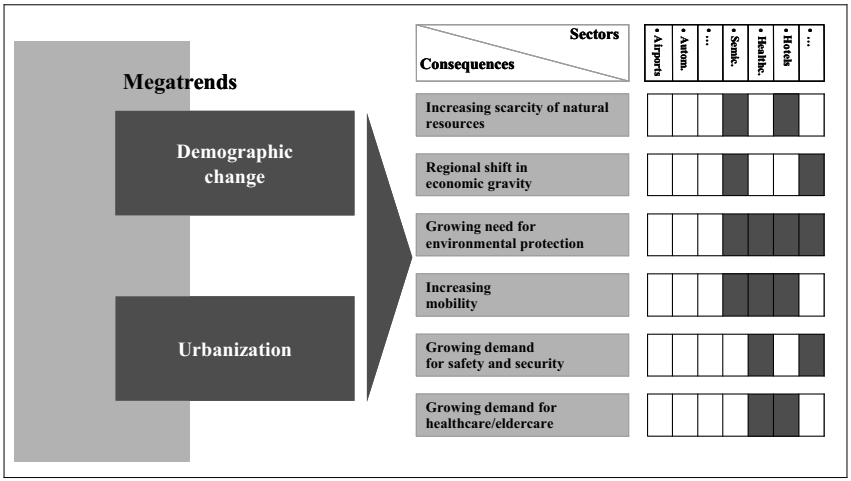
Shift of economic gravity among the regions: New centers of economic power with rising wealth, increasing living standards and better education demand customized products and services. In addition, an increased investment in these centers and the attraction of talent are prerequisites in order to be successful in these markets.

Increasing mobility: Mobility has become a major socioeconomic necessity across the globe. Road, air, rail and sea traffic volumes are already at a high level today and will continue to grow. Hence, intelligent solutions for integrated mobility systems and services are the basis for efficient and seamless management of future mobility challenges.

Source: Company presentation (P6)

In detailed trend studies, the trend consequences were analyzed and sector growth opportunities were derived (see figure 8-10). For example, corporate managers identified business opportunities for specific integrated solutions in the healthcare sector resulting from an aging society.

Figure 8-10: Deriving of sector growth opportunities from trends

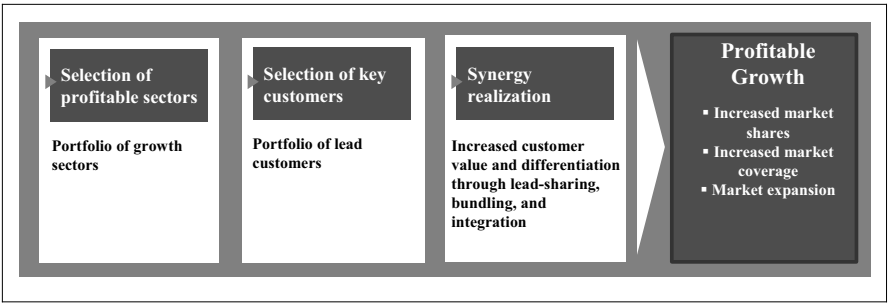


Source: Company presentation (P2), modified

8.3.3 Summary of Strategic Concept

ElectroCorp's corporate managers developed a strategic concept for the continuous realization of growth synergies that is based on three norm-strategies and focuses attention on selected profitable sectors with designated key accounts (figure 8-11).

Figure 8-11: Summary of Strategic Concept



Source: author

Norm strategies provide the conceptual grounding for deriving economic value from synergy realization. Sectors introduce a 'third dimension' for managers to conceive their environment. They complement the 'product' and 'geographic' dimension established by ElectroCorp's matrix with a horizontal, 'customer-centric' perspective for the realization of growth synergies. The focus on profitable growth sectors and the selection of key customers for the realization of growth synergies supports profitable growth. Lead-sharing increases the market shares of businesses. Comprehensive sector offerings and the elimination of 'white spots' in the portfolio increase market coverage. Innovative sector offerings that address customer needs beyond the current view expand the overall market.

8.4 Corporate Design for the continuous realization of growth synergies

In this section, we present the alignments in ElectroCorp's organization design for implementing the strategic concept for continuous growth synergy realization. We begin with a discussion of the structural alignments (8.4.1). Subsequently, we describe the alignments of management systems and processes (8.4.2) and of rules and standards (8.4.3) that complement the structural alignments. We continue with the adjustments of human resource practices (6.4.4) and the normative frame (8.4.5). We close with a brief summary (6.4.6). Figure 8-12 provides an overview of the organizational alignments.

Figure 8-12: Overview of organizational alignments

Category	Alignments
Structure	▪ Secondary overlay structures without profit and loss responsibilities for sectors ▪ Corporate service departments
Management Systems and Processes	▪ Horizontal perspective in the strategic planning process ▪ Corporate level rewards ▪ Corporate IT systems for sales, R&D and community building ▪ Corporate processes and tools for account management and solution selling
Rules and Standards	▪ Standards for cross-business project management ▪ Rules for transfer pricing
Human Resource Practices	▪ Formal Trainings ▪ Corporate career tracks in sales ▪ Cross-business rotation of managers
Normative Frame	▪ Collaborative corporate values ▪ Vision and mission for the realization of growth synergies

Source: author

8.4.1 Alignment of Structures

The greatest and most obvious organizational alignments that we observed were structural. Corporate managers implemented secondary overlay structures (i.e. operating structures without profit and loss responsibilities) that support businesses and regional companies in the realization of growth synergies. Specifically, these structures form arenas for the continuous identification, selection, and implementation of growth synergy initiatives. We refer to growth synergy initiatives as every coordinated undertaking that is intended to realize growth synergies. At ElectroCorp, these initiatives were based on the previously discussed norm strategies and thus focused on realizing growth synergies through lead-sharing, bundling and integration.

We observed two different kinds of secondary overlay structures: The major structure is the *sector organization*, which supports the continuous exploitation of growth synergies in sectors. The sector organization is supplemented by *business competence centers,* which are minor (temporary) structures for special growth synergy situations. The *corporate OneEC department* governs these two structures. We begin with a description of the sector organization, followed by the business competence centers and then discuss the role of the OneEC department in these structures.

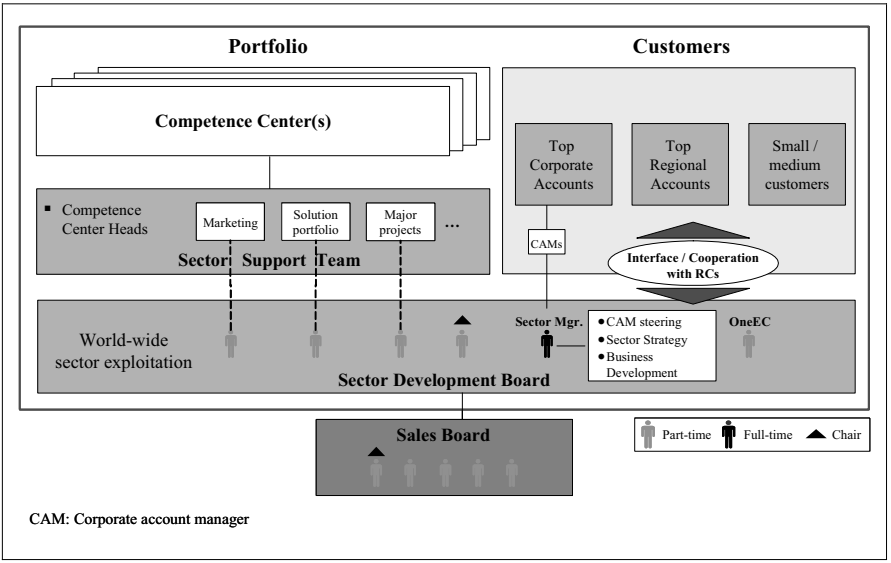
(1) Sector Organization

The purpose of the sector organization is to drive the continuous realization of growth synergies in defined sectors. It defines clear roles and responsibilities for synergy realization and links the businesses that are participating in the sector. The sector organization supports decision makers and middle managers that are closest to the market in the realization of growth synergies without exercising any corporate control.[100] Consequently, the sector organization is a decentralized structure that enables businesses to realize growth synergies without any central involvement from corporate managers. ElectroCorp's managers implemented the structure in 2004 after they had concluded that informal coordination mechanisms were insufficient for the continuous realization of growth synergies.

[100] The sector organization has no formal reporting relationship with corporate executives.

Figure 8-13 depicts the core elements of the sector organization.

Figure 8-13: Core elements of the sector organization



Source: Company presentation (P2)

The sector organization consists of permanent cross-business boards for decision-making and permanent work teams for linking the value chains of the businesses. It integrates ElectroCorp's portfolio activities (business development, research and development) with front-end customer activities (marketing and sales) for the development and sale of cross-business solutions in sectors.

The core of the sector organization is the *sector development board*. It is a cross-business board responsible for developing and penetrating the specific sector. It aligns ElectrocCorp's portfolio across businesses with sector trends and the needs of key customers. Corporate managers installed a separate sector development board for every target sector. The *sector support team* is a permanent cross-business team that supports the sector development board in its strategic and operational portfolio activities. *Competence centers* of the businesses that participate in the sector bolster the sector support team through coordinating sector-specific portfolio activities across the divisions of a focal business. On the customer front-end, sector development boards are closely linked with corporate account management and regional companies. *Corporate account managers* represent ElectroCorp's portfolio to key customers and develop solution business with lead customers in the sector. *Regional companies* are responsible for optimally exploiting the sector within their region (top regional company accounts and small/medium customers). The *sales board* is the overall decision-making body in

the sector organization. As a strategic investor, it funds the various sector development boards and sets the overall sector targets.

In the following, we explain the detailed roles and responsibilities of the various cross-business coordination mechanisms in the sector organization.

(a) Sales Board (SB)

The sales board is the overall decision-making body of the sector organization. The sales board consists of the heads of ElectroCorp's businesses (business unit heads) that participate in the various sector development boards. The sales board meets quarterly and is coached by a member of the central executive committee.[101]

The sales board has the overall responsibility for the sector organization. It represents the businesses and acts as a shareholder of the sector development boards focusing on return on investment. In the role of a strategic investor, it invests in the sector development boards and approves and tracks their goals, strategies and performance. Furthermore, it is responsible for promoting cross-business cooperation in the regional companies by approving the relevant fundamental regulations.

The sales board appoints the key leaders within the sector organization including the leaders of sector development boards, sector managers, and corporate and international account managers. Additionally, it allocates resources to the sectors and defines incentive guidelines for the sector organization. Furthermore, it resolves cross-business conflicts and coaches the sector development boards.

(b) Sector Development Board (SDB)

The sector development board is the decision-making body for a specific sector and reports to the sales board.

The SDB is responsible for the operations and development of the sector. This includes the following responsibilities: First, continuously aligning ElectroCorp's corporate portfolio with the needs of the customers in the sector. Second, ensuring a coordinated and effective market presence for ElectroCorp in the sector and promoting the exploitation of sector accounts and projects within the framework of the account management system. Third, developing a sector concept for sales, marketing, innovation, and major project management and establishing a sector solution portfolio. Fourth, implementing incentive guidelines based on sector targets defined by the sales board and ensuring quarterly reporting to the sales board. Finally, supporting account man-

[101] Note the decentralized design of synergy realization at ElectroCorp: The sales board (business level) can decide autonomously on the realization of growth synergies. It is not accountable for synergy realization and does not have to report to the corporate executive committee (corporate level). The executive committee has only a coaching function in continuous growth synergy realization.

agers on cross-regional and cross-business sector issues.

The main operational tasks of the SDB are the following[102]: First, making recommendations to the sales board regarding the selection of account managers. Second, the appointment and functional steering of sector support team members. Third, approving the overall sector budget, the budget of the corporate account managers, customer and project development plans, and cross-business project teams (which are nominated by the sector support team). Finally, it nominates potentially new ElectroCorp businesses to become SDB members and negotiates their entry details.

The SDB consists of at least one division head per business, an assigned full-time sector manager and a "One EC" representative from the corporate center:

- The *division heads* are responsible for the global business within the sector scope. One of the division heads is appointed *SDB speaker* by the sales board. The SDB speaker represents the SDB activities and reports to the sales board. Furthermore, he is responsible for the sector manager in functional and general disciplinary matters. The SDB speaker is usually from the business with the strongest interest in the sector.

- The *sector manager* represents the customer view in the SDB. He is responsible for the sector-specific cross-business account management and the development of the sector. The sector manager 'owns' the sector market potential. He functionally reports to the SDB speaker and has a dedicated mentor from the sales board who is responsible for his personal development (coach) and supports him in his activities (power broker).

  The main responsibilities of the sector manager are the following: First, increasing sector volume and market penetration, especially with corporate and international account managers; second, developing and implementing a sales concept for the sector; third, driving and developing a sector value proposition, a sector strategy, and a sector business plan in cooperation with the sector support team; fourth, developing and aligning regional sector sales concepts; fifth, driving business review and forecasting processes; and finally, the continuous improvement of sector account management processes and methods.

  The sector manager mainly performs the following operational tasks: First, selecting and proposing potential sector account managers to the SDB in coordination with the regional companies and the sector support team. Second, leading and coaching sector account managers, including the determination and monitoring of

[102] Corporate managers did not specify any processes for fulfilling these operational tasks. SDBs are allowed to organize their internal processes themselves.

their targets, the development of sales skills and sector expertise, and career planning. Third, observing the sector, customer, and project environment to identify trends and opportunities. Finally, driving and tracking major sector opportunities.

- The *OneEC representative* from the corporate center is a partner in the SDB. He is the interface between corporate management and the SDB and provides a corporate view. He ensures the alignment of the SDB with ElectroCorp's account management, sector approach, and sector development methods and tools. Furthermore, he facilitates learning in the sector organization facilitating the exchange of cross-SDB experiences and best practices.

(c) Sector Support Team (SST)

The sector support team (SST) is the executive body of the SDB. It carries out the decisions of the SDB. The SST consists of the segment heads of the divisions that are participating in the sector.

The SST mainly performs the following tasks: First, it aligns the sector strategy and portfolio with businesses and regional companies. Integrating all businesses, the SST administrates the sector-specific portfolio by performing market analyses and developing repeatable sector solutions along the customer's value chain. Second, it develops sector marketing concepts and materials and coordinates sector lobbying. Third, it defines sector-specific targets and incentives for members of the competence centers. Fourth, it provides and coordinates support for major cross-business sector projects. Fifth, it provides technical and sales support for sector solutions. Sixth, it assists the regional companies in their sector activities by providing the link to the businesses and the solutions in progress, if required. Furthermore, it initiates sector specific conferences to facilitate best practice sharing, to communicate sector projects and solutions of businesses, and to transfer the required sector solutions to the relevant businesses, regional companies or competence centers. Finally, the SST supports the sector manager in the development of the sector value proposition, strategy and business plan and in the management of account managers.

(d) Competence Center (CC)

The competence centers support the work of the SST within the vertical businesses.[103] They coordinate sector specific activities across the functions and divisions of the participating businesses. They help to ensure the transformation of sector requirements into business-level portfolios and solutions. Furthermore, CCs support account man-

[103] CCs are established by the businesses that participate in the sector and also cover the corresponding costs. The configuration of CCs varies across ElectroCorp's businesses. It depends on the complexity of the business and its organization structure. However, most businesses have installed sector-specific competence centers with dedicated members.

agement teams by providing sector expertise in pre- and after-sales activities and by collecting best practices to be shared. CCs also provide sector process consulting, technical consulting and engineering, prepare advertising material and coordinate bids in technical and commercial matters.

(e) Account Management

In 2000, ElectroCorp installed an account management system for its key customers. Key customers are strategically important customers that buy from several of ElectroCorp's businesses. The task of the account management system has been to coordinate the global sales activities with key customers across businesses and to build strategic relationships with them.

To align ElectroCorp for the continuous realization of growth synergies, the account management system was integrated into the sector organization as the sales front-end. Account managers sell solutions and provide sector teams (SDB and SST) with customer requirements and additional sector market insights for the development of the cross-business portfolio (e.g., trends, innovative sector business models). Furthermore, they build strategic relationships with lead customers and initiate partnerships with them for the joint development of solutions.

In the following, we briefly describe ElectroCorp's account management system and explain how it is embedded in the sector organization. We first discuss the classification of the key accounts and then elucidate the different account management roles.

Classification of key accounts: The basis of ElectroCorp's account management system is a classification of different kinds of key accounts. Key accounts are nominated based on the customer's business volume (potential new orders and sales), global activity and mindset (centralized decision-making in sourcing, seeking of strategic partnering relationships), and the fit with ElectroCorp's strategy, portfolio and culture. Two kinds of key accounts are relevant for the development and penetration of sectors: corporate accounts and international accounts[104]. *Corporate accounts* are dedicated to ElectroCorp's most important cross-business customers, which often are lead-customers. Corporate accounts are the accounts with the highest business volume, the greatest international reach, and the highest strategic importance. *International accounts* are cross-business accounts of strategic importance but have less potential and/or less international reach than corporate accounts.

[104] ElectroCorp has defined a third kind of key account: global accounts. Global accounts are of strategic importance for ElectroCorp's single businesses but have less cross-business potential and/or less international reach than corporate accounts. They are therefore of little importance to driving cross-business growth in the sector organization.

Sector development boards, businesses, and regional companies can propose new corporate and international accounts to the sales board, which either approves or denies the requests. All key accounts are evaluated annually by the sector development boards and approved or denominated by the sales board. This ensures that resources are not wasted on customers that do not fulfill the key account requirements anymore.

Account manager roles: The account management is anchored in ElectroCorp's structure through account managers, who are full-time integration managers that coordinate customer interaction across businesses, regions and sectors. Below, we discuss their roles and responsibilities in the sector organization.

- *Corporate Account Manager (CAM)*: For each customer that has been confirmed as a corporate account, a corporate account manager is appointed. The CAM represents ElectroCorp's global sector business interests with his assigned customer worldwide. He is based at the location of the customer's headquarters and is usually a full-time resource. The businesses and regional companies include him in all topics related to his customer. The CAM reports to the sector manager in functional matters and on the development of the corporate account. In disciplinary matters, the CAM reports to the region-head of the customers' headquarters location. The regional company provides the CAM with infrastructure, general support, and HR related services; however, the CAM is regionally independent.

  The CAM has the responsibility for developing the overall strategic business with the customer and is responsible for achieving the account targets defined by the sector manager.

  The CAM performs a variety of activities to develop his corporate account: First, in close cooperation with the respective businesses and regions, he develops a global strategy for his account and drives and tracks business opportunities. Based on a thorough understanding of the customer's business goals and processes, he positions ElectroCorp as a strategic supplier and develops new business opportunities with the customer's top management. He ensures that the customer knows the scope of supplies, services and usage options of ElectroCorp's portfolio. To do so, the CAM works closely with the businesses' sales departments. Second, the CAM proactively observes the relevant sectors and project environments and evaluates customer requirements. As the customer interface of the sector organization, the CAM feeds sector developments and customer requirements back to the sector development board. Finally, the CAM ensures transparency on his account and coordinates between businesses and regions. If the involvement of a business opportunity by a specific region and business is not clear, he negotiates agreements with the units concerned that are in the best interest of the customer.

- *International Account Managers (IAM)*: International accounts are of strategic importance to the SDB but have less potential and/or less international reach than corporate accounts. For these customers, the sector development board and the regional company sometimes appoint a cross-business international account manager; however, in contrast to a corporate account manager an appointment is not compulsory. If assigned, the IAM performs the same activities as a corporate account manager.
- *Regional Company Account Manager (AM)*: The regional company account manager is responsible for the business with a specific account within a region or country. He functionally leads the cross-business account team for the account locations within a regional company.

  The AMs are appointed by the heads of the regional companies. If the customer assigned to the account is part of a corporate/international account, the corporate and international account managers and the associated sector development boards are involved in the appointment. In such a case, the AM reports to the sector manager in functional matters. The sector manager then defines the targets and incentives of the AM in joint agreement with the regional company in order to achieve the sector goals.

  The AMs perform activities similar to those of a corporate account manger, adapted to regional circumstances. In particular, AMs provide sectors with information on customer needs, regional market data and trends, business opportunities, and regional business figures.
- *Account Teams (AT)*: Account teams are cross-business or cross-regional teams that support selected customers on behalf of businesses, divisions, and regional companies. The relevant groups and regional companies appoint the account team members in close cooperation with the corporate account manager. Account team members work part-time for the relevant account and report to their original units on disciplinary matters.

(f) Sector Support of Regional Companies (RC)

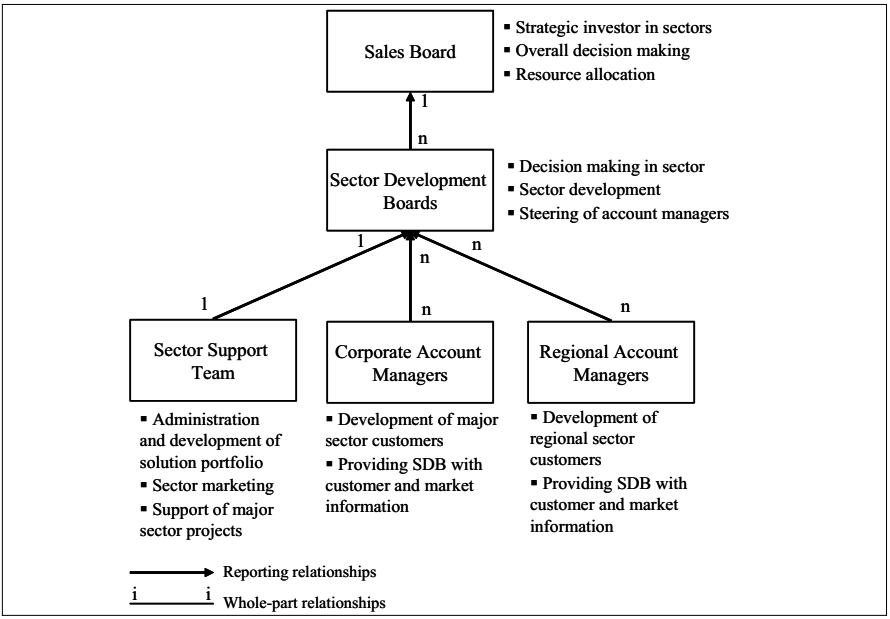
In the sector organization, regional companies are responsible for the optimal sector exploitation in their region based on mutual agreements with the sector development boards. The primary responsibility of the regional company is the effective management of regional accounts. Regional companies ensure a coordinated market presence, efficient crisis management, and conflict-free cooperation between the relevant businesses in the region. Furthermore, they develop and realize local sector opportunities, propose and provide qualified personnel for the sectors (international account manager and regional account manager), and provide sector account managers with region specific market observations.

Corporate managers give regional companies considerable autonomy to structure their sector activities. They only make non-binding recommendations during regional coaching workshops on sector operations. Most large regional companies, however, have assigned a dedicated 'OneEC' manager and several regional sector managers. The OneEC manager is then responsible for the regional sector activities and reports directly to the head of the regional company. He coaches account managers and regional sector managers, drives untapped sector opportunities, and exchanges best practices through the global 'OneEC' community. Regional sector managers coordinate the exploitation of sectors in the region, steer the regional account manager, and coordinate with the sector development boards.

Summary of Sector Organization

Figure 8-14 summarizes the roles and relationships of the key structures in the sector organization. As a strategic investor, the sales board manages the different sector development boards which are responsible for developing the sector as a strategic investor. The sector development board steers the corporate and regional account managers that may work for several and is supported by a sector support team. Account managers can theoretically report to several sectors. Practically, however, most account managers are affiliated only with one sector.

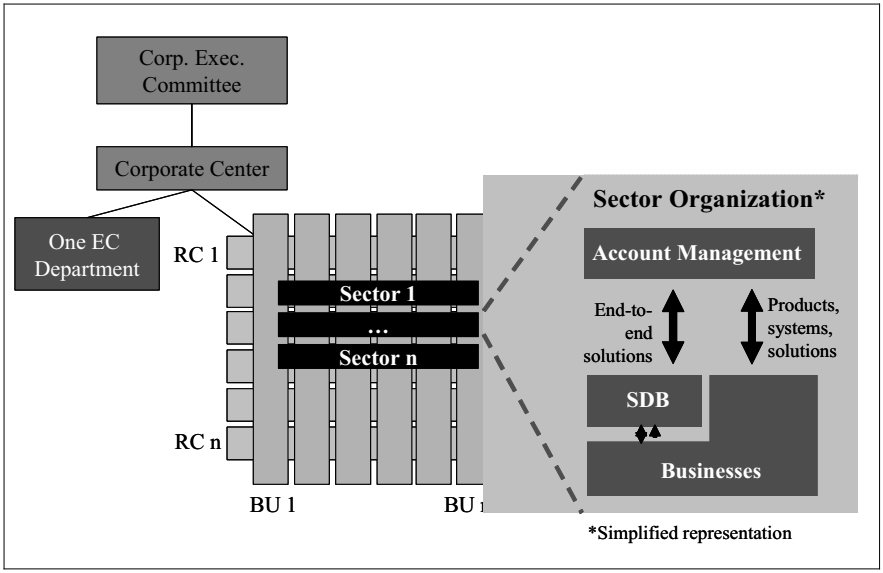
Figure 8-14: Roles and relationships of the key structures in the sector organization



Source: author

In summary, the sector organization extends the primary matrix structure of businesses and regions with a third, 'virtual' sector-dimension that cuts across businesses and regions without profit and loss responsibilities. It is a decentralized structure which is operated and funded by the businesses. The sector organization consists of a sales focused front-end (key accounts and regional accounts) and a back-end focused on the portfolio (sector support team and business competence centers). These two ends of the sector value chain are integrated through the sector development board. Figure 8-15 schematically depicts the sector organization within ElectroCorp's primary corporate structure.

Figure 8-15: Integration of sector organization into ElectroCorp's primary structure



Source: author

(2) Business Competence Centers

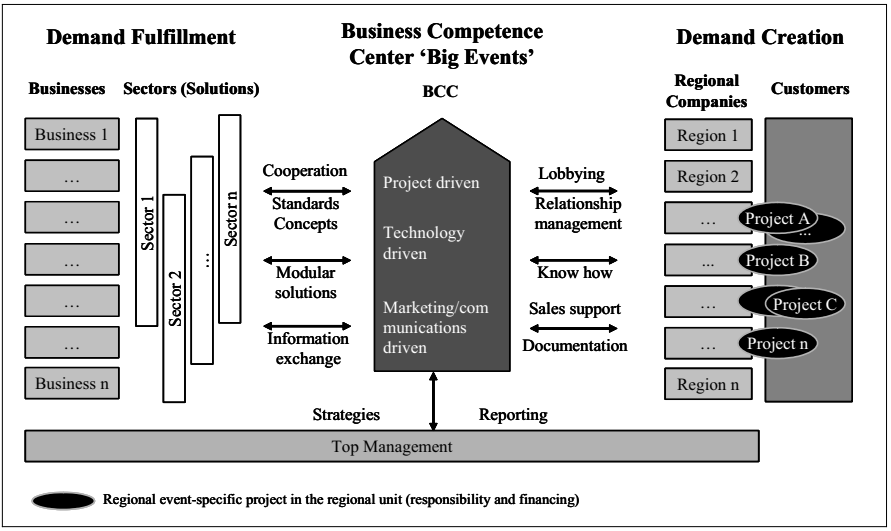
The sector organization is supplemented with business competence centers (BCC). The purpose of BCCs is to coordinate the exploitation of repeatable growth synergy opportunities that are not covered by the sector organization for a limited time. BCCs are centrally operated and funded corporate structures that provide coordination services for the businesses and regions and report to corporate management. Corporate managers establish BCCs if significant growth synergy opportunities exist but businesses are not willing to exploit them. The BCC then incubates these opportunities for up to three years. After that time, the center is terminated and it is up to the businesses to continue the coordination effort. BCCs are an exception to the normal approach of

synergy realization and represent a minority compared to sector structures. ElectroCorp operates two BCCs compared to 18 sectors.

The core task of BCCs is the creation of demand for certain kinds of repeatable growth synergy opportunities and the coordination of businesses and regions to fulfill these demands without assuming any operational responsibilities.[105] Their tasks are similar to that of the sector development board and its support team. In the role of a service center, BCCs analyze the relevant cross-business market, identify opportunities, develop a solution strategy, define a solution portfolio in cooperation with the businesses, conduct first customer contacts, coordinate worldwide marketing and partnering, drive concrete sales activities, prepare bidding and contracting, and coach businesses on BCC-related projects.

In the following, we use the example of the BCC 'Big Events' to explain the mode of operations of BCCs in more detail. Big events are large regional events such as Olympic Games and Soccer World Cups. These events trigger major infrastructure investments (e.g., building of airports, stadiums, hotels, and power plants), which provide significant growth synergy opportunities for ElectroCorp. The BCC 'Big Events' ensures the maximum exploitation of these growth synergies through centrally coordinating demand creation and fulfillment for the 'big event' market (see figure 8-16).

Figure 8-16: Role and function of BCCs



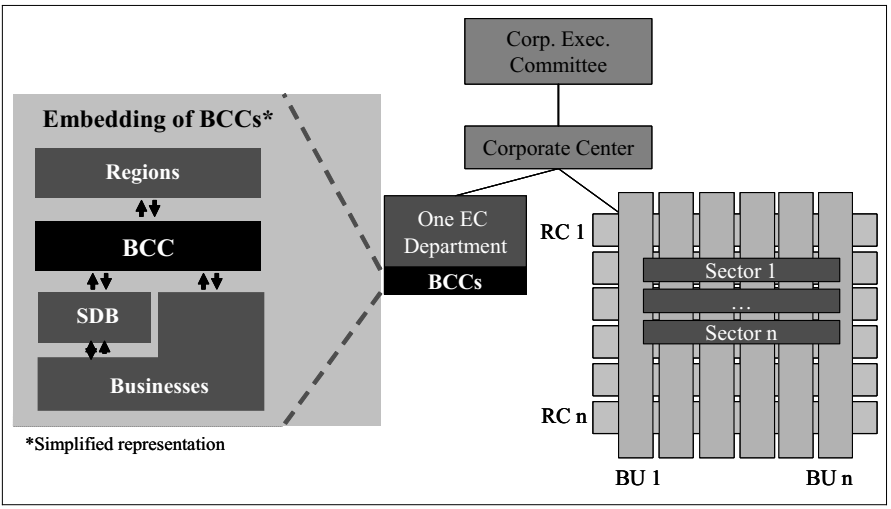
Source: Company presentation (P3), modified

[105] The profit and loss responsibility remains within businesses and regional companies.

Based on solid market intelligence (market structure, key players, etc.), the BCC develops a market and competitive strategy for big events, which includes positioning, portfolio definition, partner selection, and marketing mix determination. It coordinates the businesses and sector development boards to facilitate information exchange and to stimulate the development of event-specific solutions (demand fulfillment). Furthermore, it continuously screens the event cluster to identify emerging opportunities. It makes first customer contacts, coordinates ElectroCorp's worldwide sponsoring in the event market and lobbies to influence key decision makers such as committees (demand creation). Once concrete sales opportunities arise, it works together with the regions to set up project offices that pursue these opportunities. Finally, the BCC systematically develops domain experience in the event market, which it uses to coach the businesses and regions on event-related issues.[106]

In summary, the BCC structure is a centrally operated and funded service structure that cuts across businesses, regions, and sectors (see figure 8-17). It is temporary and designed to 'get the business going' and 'kick-start' decentralized collaboration. BCCs are an exception to the rule of the otherwise decentralized realization of growth synergies at ElectroCorp for 'special situations'.

Figure 8-17: Integration of BCCs into ElectroCorp's primary structure



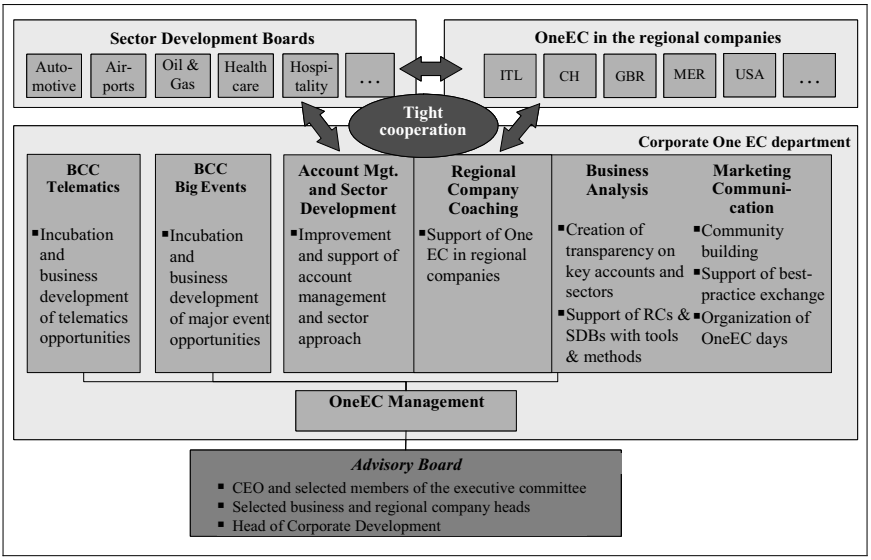
Source: author

[106] This knowledge management function of BCCs is especially relevant in the market for big events. Big events are usually once-in-a-lifetime events for regions. The Olympic Games, for instance, take usually several decades to return to a region, if they return at all. Thus, the regions involved usually do not have the necessary project experience. This frequently leads to a sub-optimal realization of growth synergy potential because program offices are set up too late (big events have lengthy preparation times of three to six years).

(3) Corporate OneEC Department

The corporate OneEC department governs the strategic and organizational approach for the realization of growth synergies.[107] Furthermore, it drives and supports sectors and regions in the continuous realization of growth synergies (without any formal authority). Moreover, it hosts the business competence centers. The OneEC department reports directly to the CEO and an advisory board, which is headed by the CEO and which consists of selected executive board members, business unit heads, regional heads and the head of corporate development. The advisory board convenes four times a year to discuss the status of the OneEC initiative, i.e. the organizational alignment for the continuous realization of growth synergies. Figure 8-18 (on the next page) depicts the organization and role of the department.[108]

Figure 8-18: Organization and Role of the OneEC department



Source: Company presentation (P7), modified

[107] Note that the OnEC department governs the approach for synergy realization but not the actual realization of growth synergies, for which businesses and regions are responsible.

[108] As of 2006, the OneEC department had over 30 full-time employees. It is expected that the department size will be reduced once the sector organization has been sufficiently optimized and the sector approach has been established as standard business practice. Several of the OneEC tasks such as best-practice exchange are then expected to be performed by the OneEC community, which consists of the key players in the sector organization including sector managers, sector support team managers, account managers, and regional OneEC managers.

The OneEC department performs the following two activities: First, it maintains and continuously improves the sector approach. This means it preserves the sector split, adjusts the roles and responsibilities of the sector organization, and improves account management tools and processes. Second, it coaches sector development boards and regional companies, identifies and transfers best practices between sectors, and coordinates the worldwide community of sector managers. To facilitate knowledge exchange, the OneEC department organizes an annual OneEC conference at which the latest developments regarding the sector organization are communicated and examples of success from different SDBs and regions are presented. The conference gives managers from the sector organization plenty of opportunities to communicate and build informal networks.

8.4.2 Alignment of Management Systems and Processes

In addition to the structural alignments, we observed several alignments in ElectroCorp's corporate management systems and processes including: (1) corporate strategic planning, (2) corporate financial planning and control, (3) corporate incentive systems, (4) corporate information technology systems, and (5) corporate sales processes and tools.

(1) Corporate Strategic Planning

Corporate strategic planning at ElectroCorp guides the configuration and development of the overall business portfolio. Before OneEC, strategic planning had a vertical focus. It was concerned with investments in and divestments of specific businesses. To improve the focus on growth synergies, corporate managers supplemented the strategic planning process with a horizontal perspective to accommodate cross-business issues. The renewed process considers the 'horizontal' influence of investments and divestments on the new corporate business model of a solution provider. Corporate planners now employ cross-business sectors as an additional unit of analysis to businesses and regions. Businesses are not viewed as independent planning entities anymore but – at least to some extent – as an interdependent system for exploring and exploiting cross-business sectors. Corporate planners now develop businesses and sectors in a co-evolutionary fashion. For instance, based on the new horizontal perspective, ElectroCorp's corporate executives decided not to divest its low performing IT services business. Instead, they strengthened the business with several acquisitions of industrial IT companies because in-house IT capabilities are indispensable for building integrated solutions. Several other acquisitions followed that were sector-specific rather than business-specific and that would not have been conducted under the former vertical corporate strategic planning approach.

Over time, a corporate business model evolved in which different businesses assumed different roles, such as IT specialist, product expert and integration expert. Corporate

planners used these roles to plan the corporate development path and the corporate capability base.

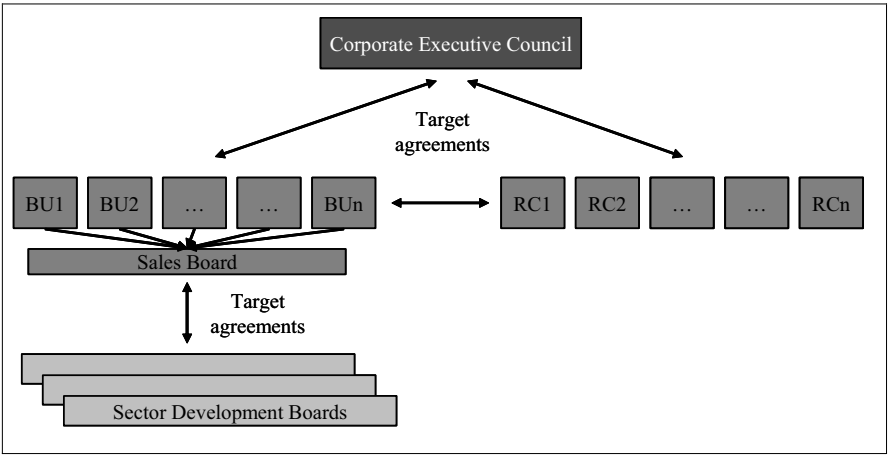
The horizontal perspective in the strategic planning process is supported by a three-dimensional market model, which segments ElectroCorp's corporate market along the three dimensions 'businesses', 'regions' and 'sectors'. Furthermore, central sector market intelligence is built up on an ongoing basis. A new corporate market intelligence department continuously analyzes the development of sector markets including macroeconomic factors, market trends, and competitor dynamics. The analysis results in strategic implications and recommendations which are used for portfolio development and are made available to sector development boards for the formulation of their sector strategy. Furthermore, the sector market intelligence is used for corporate level and sector level portfolio decisions.

A further change in the corporate strategic planning process concerns the agenda of strategic planning meetings. These are meetings where the business unit heads convene quarterly with the executive board to discuss and justify their business strategies. Before OneEC, these meetings predominantly addressed business-specific issues. Every business presented its strategy and reported on its (vertical) strategic initiatives. Discussion of cross-business topics were the exception. To improve the realization of growth synergies, these meetings are now used to discuss and challenge cross-business issues. In the style of 'strategic conversations', the executive board and the businesses discuss cross-business topics such as horizontal initiatives, modifications of the corporate business model, and changes in market trends and customer requirements that affect several businesses.

(2) Corporate Financial Planning and Control

Corporate financial planning and control at ElectroCorp involve the setting, monitoring, and enforcement of performance targets. While strategic planning was supplemented with a horizontal perspective, financial plans and controls remained business-specific. In line with the decentralized approach of synergy realization, businesses are held responsible for their vertical performance only and not for any cross-business goals. In the annual target agreement process, corporate executives, business unit heads, and regional company heads agree on business-specific performance targets. The cross-business goals for the sector development boards are independent of the corporate financial planning and control process. They are negotiated on the business level between the sales board and the individual sector development boards without any corporate involvement. Figure 8-19 on the next page depicts the financial planning and control relationships between businesses, regional companies and sectors.

Figure 8-19: Control relationships between businesses, regions, and sectors



Source: author

Even though corporate managers do not exert any control for the realization of growth synergies, they monitor the performance of corporate accounts and sectors through cross-business scorecards.[109] The performance information provides feedback for the continuous improvement of the sector approach and the overall alignment of the corporate structure.[110]

(3) Corporate Incentive Systems

Corporate managers provide corporate-level incentives for business unit heads, corporate account managers and sector managers. These managers receive approximately 20% of their variable compensation (annual bonus) based on ElectroCorp's corporate performance.

Independent of corporate managers, the sales board (on the business level) decides on the design of incentives for other key employees of the sector organization – notably the division heads in the sector development boards and the business segment heads in the sector support team.[111] Most business heads included sector work in the job re-

[109] Cross-business scorecards compare the flow of new orders between periods and calculate penetration measures that indicate how well the potential of key customers and sectors is exploited.

[110] Performance feedback allows corporate managers to improve the account management system and sector setup and permits them to challenge businesses (without formal control) when sectors clearly do not exploit their potential. Furthermore, corporate managers receive information for the alignment of corporate structures. For instance, if a sector grows fast, it may require more autonomy. Corporate managers may then decide to transform the sector into a division or even a business. To make such 'patching' decisions, corporate managers need information on the sector performance.

[111] The argument of corporate managers for giving business autonomy in the creation of cross-business incentives for division and segment managers was the following: In contrast to the full-time sector managers and

sponsibilities of their division and segment heads and refrained from providing additional corporate incentives.

Similar to business managers, the heads of the regional companies can autonomously decide on their incentive schemes for the realization of growth synergies. These schemes vary greatly depending on the specific role of the region in synergy realization. Based on a review of best practices, OneEC (corporate) managers recommend three regional incentive schemes for different kinds of cross-business collaboration:

- The first concept concerns *unplanned cross-business collaboration by individual sales representatives* for lead-sharing (identification and proactive sharing of business opportunities outside the individual responsibility). For this case, corporate managers recommend simple monetary incentives without any a priori sales targets for all employees with customer contact. Lump sum bonuses should be paid for successful follow-ups on shared leads that keep management involvement and administrative work to a minimum.
- The second concept concerns *planned cross-business collaboration by ad-hoc project teams*. For this case, corporate managers recommend that the responsible sales managers derive sales targets jointly with cross-business project teams. Based on the achievement of these targets, the team should be rewarded with monetary and non-monetary incentives.
- The third concept concerns *planned cross-business collaboration by sector account teams and regional sector managers*. For this case, corporate managers recommend that businesses, sector development boards and regional management engage in a systematic process to agree on individual targets for account team members based on their specific roles in the team. Depending on the achievement of these targets, individual team members should be rewarded with monetary and non-monetary incentives. Target fulfillment should be monitored with great care und significant management involvement. Furthermore, rewards should account for a significant part of the total variable income (30-50%).

Generally, corporate managers recommend businesses and regions to use at least some non-monetary rewards for the realization of growth synergies. Figure 8-20 (on the next page) provides an overview of the different categories of non-monetary rewards that were suggested and gives examples.

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corporate account managers that did not have any business affiliations, the part-time sector development board and sector support team members were clearly affiliated with a business. Their participation in the sector organization was in the best interest of their businesses because it stimulated incremental business sales. Consequently, businesses should determine their targets and bonuses. This reasoning is consistent with the decentralized approach of the sector organization, which is funded by the businesses without any ‘corporate money’.

Figure 8-20: Categories of non-monetary rewards

Incentive Category	Example
Recognition	▪ Simple informal acknowledgements ▪ Lunch or dinner with top management ▪ Formal recognition in public (e.g., mention in staff newsletter)
Job enrichment	▪ Assignment of new and challenging job tasks ▪ Opportunity for more self-management and flexibility ▪ Enhanced access to information and communication
Career development	▪ Job rotation to broaden knowledge and face new challenges ▪ Promotion to higher hierarchy level ▪ Individual coaching sessions/feedback to trigger skill development
Status indicators	▪ Invitation to higher-level meetings or conferences ▪ Allowance of corporate car ▪ Eligibility to travel first or business class
Others	▪ Extra team events (e.g., workshop in 5-star wellness hotel) ▪ Journey for eligible and partner

Source: Company presentation (P8)

(4) Corporate Information Technology Systems

To cope with the increased lateral flow of information between businesses in the realization of growth synergies, corporate managers implemented several corporate information technology (IT) systems including (a) an account management portal, (b) a corporate solution database, and (c) an intranet platform.

(a) Corporate Account Management Portal / Corporate CRM System

Corporate managers introduced an *account team portal* which hosts account information for account managers that work across businesses and regions. The account team portal provides ElectroCorp's corporate account managers a transparent and secure information platform for joint customer development. The portal hosts a customer relationship database, a virtual workspace for account teams, a sales opportunity management system, and planning and reporting tools. Corporate managers optimized the portal to support systematic lead-sharing and solution-selling. The portal provides account team members with customer profiles, relevant customer offerings, and account plans. Customer profiles include selling opportunities and specific customer data such as customer sales, profits, employees, strategic objectives, and organization structure. For every customer, the system suggests a list with relevant offerings from ElectroCorp's corporate portfolio that improve customer core processes and allow the customer to reach his strategic objectives. The account plan contains the overall objectives for customer development, the strategy for their implementation, and a concrete action list

with assigned responsibilities across businesses and regions.

An ongoing project at ElectroCorp aims to expand the account team portal into a *corporate customer relationship management system (CRM)* that coordinates the identification, acquisition, and retention of customers across multiple channels, departments, lines of businesses, and regions. The objective of the corporate CRM is to extend the information that is provided by the account team portal only for a small number of key accounts to a larger cross-business and cross-regional customer base. The corporate CRM integrates the incompatible CRM applications of ElectroCorp's vertical businesses and regions into a standardized horizontal sales support system. Once implemented, the CRM system will combine multiple sources of input from businesses, sectors and regions into a holistic 360 degree view of the customer. This holistic view will improve the identification of sales opportunities across businesses and their exploitation through lead-sharing and solution selling.

(b) Corporate Solution Database / Corporate PLM System

To support sales managers and sector support teams in the development and sale of solutions, corporate managers introduced a c*orporate solution database* which provides a sector specific overview of ElectroCorp's offerings portfolio. The database links solution components and products from different businesses to integrated system solutions for the various sectors. It thus provides a sector-specific view of ElectroCorp's portfolio of offerings. This information supports the penetration and development of the corporate portfolio. Knowing the complete sector portfolio, sales managers can improve their selling efforts in the sectors. Recognizing the full breadth of ElectroCorp's offerings, sector managers can better perceive 'white spots' and can develop higher quality solution roadmaps.

An ongoing effort at ElectroCorp aims to integrate the solution database into a *corporate product lifecycle management system (PLM)* to synchronize vertical product management and horizontal solution management. A PLM system covers lifecycle planning, product portfolio management and the development, continuous improvement, and termination of individual products. A corporate PLM system extends these activities from vertical products to horizontal solutions and thus improves the realization of growth synergies.

(c) OneEC Intranet Platform

Corporate managers developed an intranet platform for the OneEC community. The platform provides cross-business tools for the realization of growth synergies such as guidelines, sector market intelligence, success stories, use cases, best-practices, a contact database, and self-assessments. Furthermore, the platform hosts webcasts and announcements regarding cross-business growth by the CEO and OneEC management. Overall, the platform facilitates and supportes an active OneEC community.

(5) Corporate Sales Processes and Tools

To support the continuous realization of growth synergies, corporate managers made further adjustments in corporate sales processes and tools. They (a) professionalized the key account management process and (b) developed a sales approach for solution selling.

(a) Key account management process

The key account management process is a systematic approach for the planning and development of key accounts. Corporate managers designed a four-step key account management process. Exhibit 8-21 (on the next page) provides a brief overview.

Figure 8-21: Key Account Management Process

The key account management process consists of the four steps outlined below:

Kick-off

During the kick-off phase, account-specific data is gathered and the relevant participants for the process are identified and informed.

Account Plan Workshop

The account plan workshop is a joint workshop of account managers with the customer with the objective to identify business opportunities and derive strategies for customer development. The workshop runs through three specific steps:

(1) Situation Analysis: Analysis of customer business processes, collection of information on ElectroCorp's position and competitor strategies, identification of risks/strength/weaknesses, etc.;
(2) Idea Generation: Identification of primary business opportunities in a creative session, preparation of customer interview (questions on the enterprise, business opportunities, and ElectroCorp as a partner);
(3) Customer Interview and Conclusion: Interview with the customer to identify new ideas on how to support the customer's strategic investments; evaluation of interview, generation of new business opportunities, review of previously defined opportunities, setting of objectives and strategy for the account team, creation of a to-do list

Business Development

Business development involves different activities for developing the business with the customer including the pinpointing of concrete customer benefits (customer value proposition) and development of sales promotion strategies.

Business development activities are monitored and controlled through five specific degrees of implementation (DI) that key account managers use to report their sales status to sector managers:

DI 1 = Specific opportunity described; *DI 2*= Action described; *DI 3*= Action fully elaborated; *DI 4*= Action substantively implemented; *DI 5* = Action implemented with impact on sales.

Customer Relationship Management

Different activities for managing the customer relationship including the nomination of an account team, the development of a customer support concept, gathering of customer feedback to agree on the form of strategic partnership, and a customer-specific business plan and target agreement.

Source: Company presentation (P1), modified

The major features of the account planning process are its elaborate process steps and the improved monitoring of identified cross-business opportunities through 'degree of implementation' controlling. The 'degree of implementation' (DI) provides transparency on the sales status on a five-point scale ranging from 'description of sales opportunity' to 'full implementation of action with impact on sales' (for full description of all five DIs see exhibit 8-21). DI controlling enables sector managers to steer their ac-

count managers in the sales front-end better. Based on the degree of implementation, they can act appropriately to the situation. For example, if account managers have lined up several sales leads that are in the first degree of implementation (sales opportunity described), the sector manager could focus account managers more on following up on these leads instead of searching for new opportunities.

(b) Sales approach for solution selling

A further alignment in the corporate sales function was the development of methods and tools for solution selling. The shift towards a corporate business model of a solution provider requires that corporate account managers become trusted advisors to and strategic partners of their customers. Instead of pushing products onto their customers or selling on the technology level, they are now supposed to engage in consultative value selling that tailors solutions to customers' changing needs. ElectroCorp's sales managers need to develop a common view with their customers on how to improve the customer's business. In close cooperation with the sectors, account managers have to gain an understanding of customer core processes and the strategic environment the customer is operating in to recommend customers solutions that improve their profitability and enable them to meet their future challenges. Moreover, sales managers need to anticipate new customer needs and communicate them to the sectors to drive sector innovation and repeatable solutions at the beginning of the market cycle. As a corporate presentation put it: "*[account managers] are not only able to sell on demand but are also ready (...) to shape the upcoming demands and wallets of the future*" (P6: 157).

To support sector and account managers, corporate managers (1) developed methods and tools for solution selling, (2) introduced a new type of joint customer meetings – EC days –, and (3) initiated a top executive relationship program for key customers.

- *Methods and Tools*: Together with external consultants and ElectroCorp's internal management education provider, corporate managers developed several methods and tools for solution selling. The methods and tools include guidelines on conducting a customer situation analysis, analyzing industries and value chains, performing customer interviews, performing cost/benefit analyses, presenting innovative ideas, demonstrating thought leadership, developing customer value propositions, selecting lead customers, and customer sales financing.
- *EC Days*: Corporate managers introduced a new type of joint meeting with key customers, termed 'EC Days'. At these meetings, sector managers, account managers, and customers discuss strategic topics that are of joint interest such as 'new exploration techniques in the oil and gas industry' or 'innovation in travel'. The objectives of OneEC Days are to improve the understanding of customers and their sectors, to position ElectroCorp as a strategic partner and trusted advisor, and to

explore new sales opportunities.

- *Top Executive Relationship Program*: As top executives of the customer usually initiate (or approve) the significant investments in the cross-business solutions that ElectroCorp sells, strategic long-term customer relationships at the executive level need to be established. To strengthen and establish these relationships, corporate managers introduced the top executive relationship program, which involves the members of the corporate executive committee more actively in the sales process. In close cooperation with key account managers, executive managers at ElectroCorp are now supposed to establish trusting relationships with the top managers of key customer accounts.

8.4.3 Alignment of rules and standards

Corporate managers established several operative rules for the fulfillment of cross-business projects, which they termed 'rules of the game'. These rules included (1) standards for managing cross-business projects and (2) rules for transfer pricing between businesses.

(1) Standards for Cross-business Project Management

Cross-business project management standards establish binding procedures for specific issues in the management of cross-business projects[112] including:

- operative cooperation model and contracting (e.g., contract split, open consortium, silent consortium, general contracting),
- margin distribution between businesses,
- operative risk sharing between businesses (e.g., each business assumes risk for its own part of the operation, risk shared between businesses, lead business assumes complete project risk),
- determination of project lead and controlling (e.g., each division for its own part, each division with lead division as coordinator, or lead division only),
- customer contact partner selection (e.g., each division for its own part, lead division).

Furthermore, standards codified best practices for the operative management of cross-business projects.

[112] The management process of cross-business projects involves four phases: (1) *Pre-acquisition phase* including identification of internal partners and lead group, project overview, and go/no-go decision. (2) *Acquisition phase* including development of a sales strategy that is aligned with sector goals, decision on the collaboration model, and bid/no-bid decision. (3) *Bid preparation and negotiation* including decision on margin sharing, price calculation, offer preparation, joint risk assessment, common negotiation strategy, and consortium agreement. (4) *Project realization and warranty* including nomination of project manager with clear mandate from all businesses, decision on project organization, escalation model for unforeseen events, cooperation model for after sales phase, and debriefing with focus on cross-business learning.

(2) Rules for Transfer Pricing

The fulfillment of cross-business projects at ElectroCorp frequently involves transfer pricing. The transfer price is the price at which one business transfers resources (e.g., components, products, service, employees) to another business in the course of building the customer solution. Corporate managers established clear rules for transfer prices. All cross-business transfers have to follow the *arm's length principle*, i.e. the transfer price has to be equal to the compensation that would be paid in the respective transaction under similar conditions if the transaction were conducted with an external third party. In other words, the transfer price set must be such that the business manager concerned would be prepared to provide or receive the same goods or services to or from an independent third party under the same or similar terms and conditions (market-oriented prices). The specific transfer pricing rules at ElectroCorp under the arm's length principle are the following:

- market prices are essential – simple margin addition is prohibited,
- internal prices/costs have to be proven by benchmarking,
- 'open book' calculation is mandatory.

8.4.4 Alignment of Human Resource Practices

To ensure that sector employees have the required skills for the realization of growth synergies, corporate managers aligned several HR practices.

The jobs in the sector organization are demanding. *Account managers* are required to possess solution-selling skills and profound knowledge of ElectroCorp's diverse portfolio. Furthermore, they need to be able to lead and integrate globally dispersed cross-business teams, in some cases laterally, without formal authority. *Sector managers* have a similarly challenging task. As integration managers responsible for the development of the sector, they are required to possess strong strategic, entrepreneurial, and coordinative skills and have to be able to lead laterally across regions and businesses without the disciplinary power of a line manger. *Sector support team* members need to be familiar with ElectroCorp's broad portfolio and are required to have a substantial body of technical knowledge to foster technically integrated solutions. To make sure that the right people are in the right positions and that key managers in the sector organization have the required skills, corporate managers introduced several human resource (HR) practices:

- *Formal Training*: Corporate managers initiated the development of training courses in solution selling, account management and lateral leadership. Subsequently, the internal management education unit (a kind of corporate university) trains key employees of the sector organization along these courses.

- *Corporate Sales Career Track:* The sales function is critical in the sector approach.

However, due to the historic engineering focus of the company, the sales function was not well developed at ElectroCorp. Consequently, it was difficult to staff account management positions adequately. To increase the internal pipeline of account managers, corporate managers upgraded the status of account management in the organization and developed dedicated corporate sales and account management career tracks.

- *Cross-business Rotation:* Traditionally, at ElectroCorp most careers have been vertical, i.e. business-specific. Consequently, managers frequently lack a horizontal perspective and mindset. They only have very limited knowledge of their sister businesses, the corporate portfolio and corporate strategy. Furthermore, their cross-business network is usually not well developed. This personal lack of corporate understanding, embeddedness and identity increases the difficulty of lateral leadership tasks in the sector organization. To address this issue, corporate managers planned to increase the rotation of managers across businesses and envisioned cross-business assignments as qualifying 'stepping-stones' for higher management responsibilities.

8.4.5 Alignment of the Normative Frame: Vision, Mission and Values

A major and ongoing task of corporate managers has been the alignment of ElectroCorp's normative frame to establish a culture of collaboration for the realization of growth synergies:

> *"Getting our businesses to work together is a major cultural change … after our decentralization in 1989 and more than a decade of vertical optimization and restructuring you cannot establish cooperation overnight … in the past synergy was a 'taboo word' at our firm … changing the minds of our business managers … communicating our new 'EC One' philosophy … is a long-term task." (S14: 2)*

At the end of 1989, ElectroCorp conducted a major restructuring of its businesses. The large businesses were split into smaller, decentralized units to foster decision speed and local responsiveness. Over the next decade, the dominant focus was on vertical business optimization. The realization of cross-business synergies was not a corporate priority until 2002. The work across businesses was discouraged because it drew attention away from restructuring the businesses. Consequently, horizontal coordination was diminished and businesses developed strong vertical cultures. To bring the minds of the people together again and to establish a corporate identity and collaborative culture (being 'one firm'), corporate managers aligned the normative frame.

They introduced new *corporate values* that stressed the importance of collaboration and joint focus on the customer. Furthermore, they created a normative framework for OneEC. The framework includes a dedicated vision, mission, value proposition, and

specific messages. The *vision* describes the contribution of OneEC to the overall company goal. The *mission* breaks the broad vision down and states how the relevant organizational entities for the realization of growth synergies – sector development boards, business competence centers, and regional companies – act to make the vision come true. The *value proposition* defines the specific benefit and promise to the customers. It delivers the 'reasons to believe'. *Messages* transform the strategic rationale of OneEC into regionally adjusted core statements. Figure 8-23 describes the different elements of the normative framework.

Figure 8-22: Normative Frame for OneEC

Vision

Driving ElectroCorp's profit and growth and turning the conglomerate discount into a conglomerate surplus by:

- increasing the penetration of existing customers and winning new customers within and across our businesses
- increasing the transparency on our markets, sectors and customers
- by systematically understanding our customers' business
- helping our customers to gain competitive advantage through customized solutions based on our product portfolio

Mission (differentiated by entity)

<u>One EC department</u>: Supporting the businesses to act as one ElectroCorp by applying a systematic customer perspective and challenging them

<u>SDB / BCC</u>: Driving business by creating (integrated) solutions in sectors to better meet customer needs

<u>Regional companies</u>: Driving (cross-business) business and supporting the businesses to act as one ElectroCorp

Value Proposition

We are leveraging ElectroCorp's full potential to keep our customers one step ahead in terms of productivity or a strong competitive position by:

- focusing on solving the customers' individual business needs
- offering scalable solutions at the degree of single sourcing the customer wants
- reducing complexity in large-scale projects and multi-vendor environments
- ensuring a long-time commitment covering the solutions' whole lifecycle (longer than consortia can do)
- providing proven-successful and future-ready solutions that can meet both current needs and future market potentials
- in time and on budget.

"OneEC leverages ElectroCorp's full potential to keep our customers one step ahead by bringing together the competencies of different businesses to offer comprehensive, customized solutions"

Figure8-22 (continued): Normative frame for OneEC

Key Messages

The One EC approach is intended to contribute to the conglomerate bonus:

- with incremental cross-business revenues…
- by bridging the gap between customers' needs and ElectroCorp's organizational set-up and thereby winning new customers as well as increasing penetration among existing customers…
- fostering repeatable offerings in focused sectors and solutions…

developed, driven, supported and challenged by the corporate One EC department, by the regions and the sector development boards and business competence centers.

Source: Company presentation (P4), modified

The new normative frame was communicated through an intense and continuing global campaign, which followed a cascading 'communication pyramid'. The target audiences were the members of the OneEC organization, top managers, and regional sales people. These managers then had the task to multiply the message to address all of ElectroCorp's employees. Communication was differentiated and had target audience-specific objectives. Corporate managers expected that employees would internalize the OneEC philosophy over time and that permanent cross-business collaboration for the continuous realization of growth synergies would become part of the usual way to do business at ElectroCorp.

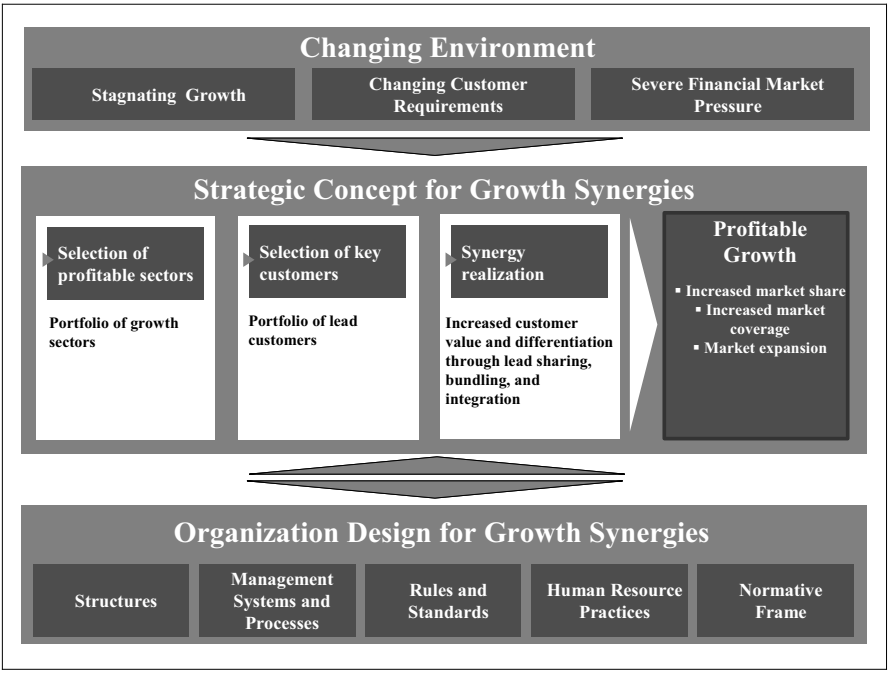
8.4.6 Summary of corporate design

ElectroCorp established two dedicated secondary structures for the continuous realization of growth synergies. A decentralized sector organization integrates the businesses and regions for the continuous realization of growth synergies. Centralized service centers supplement the sector organization for incubating cross-business opportunities that businesses initially decline to exploit. A corporate center department maintains and supports the secondary structures. The secondary structures are complemented with a corporate planning process that establishes a horizontal cross-business perspective and corporate-level incentives. Newly installed corporate information technology systems help to cope with the increased lateral flow of information in synergy realization. Updated corporate sales processes improve the sale of cross-business solutions. Newly established standards and rules ensure the smooth fulfillment of cross-business projects. New human resource practices and a normative frame focused on collaboration align the skills and minds of people for the ongoing realization of growth synergies.

8.5 Summary

In this chapter, we presented one of the first cases in strategic management that provides a detailed account of the continuous realization of growth synergies at a global multi-business firm (based on direct observation of this phenomenon). Following a successful corporate initiative, we described the strategic concept and organization design that aligned the organization with its environment for the ongoing realization of growth synergies. Figure 8-24 on the next page provides a summary.

Figure 8-23: Summary of Case Study



Source: author

Stagnating growth, changing customer requirements, and severe financial market pressure triggered the pursuit of growth synergies at ElectroCorp. A strategic concept focused the realization of growth synergies on profitable sectors with designated key customers. The strategic concept was implemented through a dedicated organization design that involved structures, management systems and processes, human resource practices, and a normative frame.

This case provides the context for the induction of constructs and propositions (i.e. success factors) regarding the continuous realization of growth synergies in the next chapter.

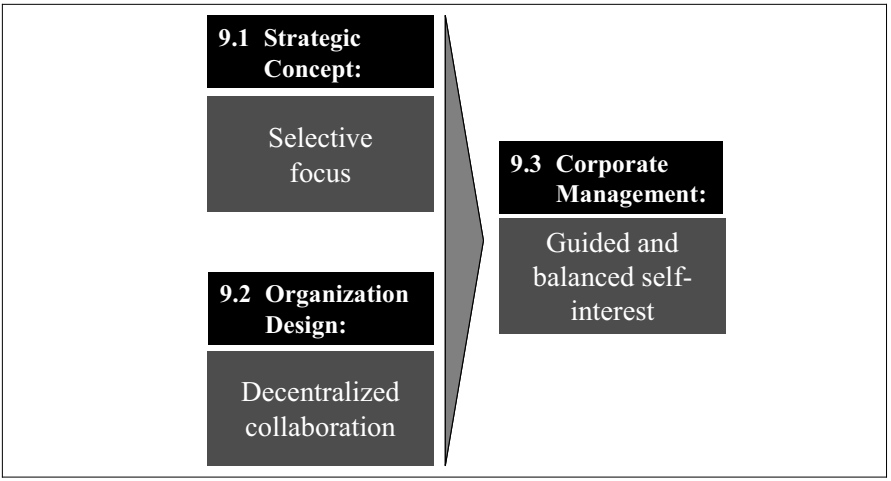
9 Results: Key success factors for the continuous realization of growth synergies

The objective of the empirical part of this dissertation is to analyze how MBFs can continuously realize growth synergies. Hereby our focus is not on individual synergy initiatives but on the organization per se – i.e. the 'strategy' and 'organization design' of the firm that contribute to the continuous realization of growth synergies.

Based on the data obtained from our longitudinal case study and the application of grounded theory, we inferred constructs and propositions that provide a mid-range theory of continuous growth synergy realization in MBFs. The constructs pinpoint the key elements in strategy and organization design that contribute to continuous growth synergy realization. Therefore, they conceptualize key success factors that emerged from our data. In presenting these results, this chapter sits at the heart of this study.

The chapter is structured around three analytic dimensions that emerged from our data: strategic concept, organization design, and corporate management (figure 9-1). Consistent with our method of grounded theorizing, the 'corporate management' dimension integrates the findings from the other two dimensions into a super-ordinate core category (Glaser & Strauss 1990, 1996).

Figure 9-1: Chapter structure



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Section 9.1 discusses the *strategic concept*, which determines the objective and content of growth synergy realization. Our data suggests that continuous growth synergy realization is achieved through a strategic concept that establishes a focus on a few

selective areas of opportunity (selective focus). Section 9.2 focuses on the *organization design* and explains why a design of decentralized collaboration is a key organizational characteristic that contributes to the continuous realization of growth synergies. Finally, section 9.3 integrates the constructs 'selective focus' and 'decentralized collaboration' into a super-ordinate category: Our data suggests that the continuous realization of growth synergies follows a *corporate management* approach of 'guided and balanced self-interest'. As we will explain, decentralized collaboration creates and balances self-interest and a selective focus channels this self-interest for the continuous realization of growth synergies.

The three sub-chapters have a similar structure. They begin with an overview of the construct. Subsequently, a discussion of its components that is grounded in data and rooted in the existing literature further elaborates the construct. The chapters end with a summary and a compression of the findings into formal and testable propositions.

9.1 Strategic Concept: Selective focus

The realization of cross-business synergies requires pinpointing and implementing valuable synergy opportunities (e.g., Goold & Campbell 1998; Campbell & Goold 2000). Some research broadly suggests that this requires a strategic concept that determines the objective and content of synergy realization (Campbell & Goold 2000). This research, however, is unspecific and does not elaborate the attributes of such a strategic concept. Overall, the existing literature on operative synergies largely ignores the strategic and conceptual aspects of synergy realization and thus seems not to attach much importance to them.

The evidence from this study suggests otherwise. On every level of the organization, ElectroCorp's managers mentioned the existence of a strategic concept for growth synergies as a major factor influencing their continuous realization. More specifically, they emphasized that the continuous realization of growth synergies requires a strategic concept that establishes a selective focus:

> *"A major success factor in pursuing cross-business growth opportunities [i.e. growth synergies] is focus … you need to establish a clear focus on certain areas of cross-business value generation …" (S14: 4)*

> *"The strength of OneEC is our focused approach … If I compare what we are doing to similar activities of our competitors, the difference is our focus and the stringency of our concept." (S4: 2)*

> *"We put a lot of effort into focusing our efforts … To pursue synergies in a large and complex firm such as ElectroCorp you need to have a clear strategic focus …we concentrate our [growth synergy] efforts on the most valuable cross-business growth opportunities." (S3: 2)*

ElectroCorp's strategic concept focuses continuous growth synergy realization on a few selected strategic areas and excludes all other cross-business growth opportunities (**selective focus**). The selective focus sensitizes the organization to the continuous realization of growth synergies and channels organizational attention towards the most valuable opportunities. This improves the identification and selection of growth synergy initiatives[113] through more efficient search processes and reduced managerial perception biases. Furthermore, it supports the implementation of specific growth synergy initiatives by facilitating collective sense-making, fostering a shared identity, concentrating organizational resources, and aligning investment decisions across businesses.

What constitutes a selective focus for synergy realization and how does it contribute to the continuous realization of growth synergies? We observed three complementary components of a selective focus: The first component is a **strategic frame** that provides a compelling strategic rationale for the continuous realization of growth synergies. The second component is a **narrow scope** on adequate organizational domains that focuses growth synergy realization on the most attractive cross-business opportunities within the strategic frame. **Horizontal strategies** that establish specific game plans for continuous exploitation of these opportunities are the third component.

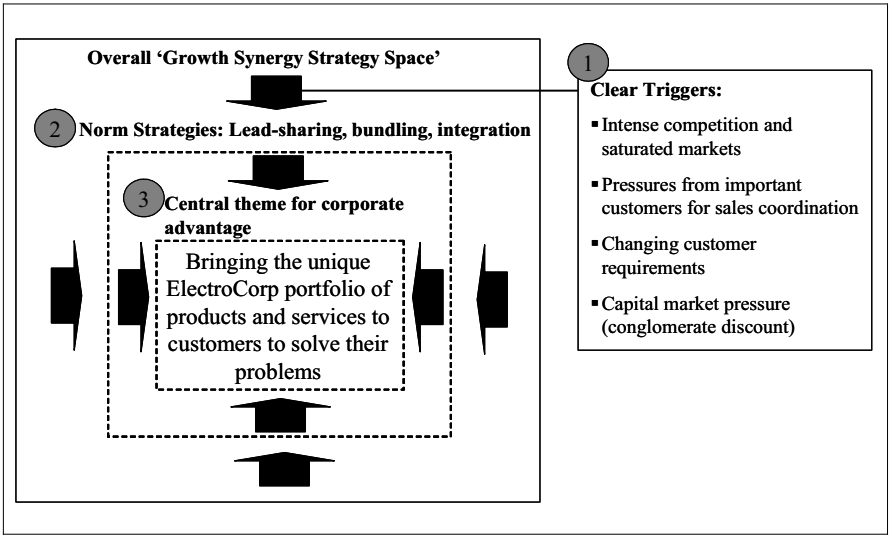
In the following, we explain the concepts of strategic frame (9.1.1), narrow scope (9.1.2) and horizontal strategies (9.1.3), ground them in data and the existing literature, and discuss why and how they can contribute to continuous growth synergy realization. We then explore the mutually reinforcing nature of these concepts (9.1.4) and finally conclude the chapter with a summary and propositions (9.1.5).

9.1.1 Strategic Frame

Corporate managers at ElectroCorp increased the focus on continuous growth synergy realization by establishing a strategic frame that provides a compelling strategic rationale for growth synergies. Based on *obvious triggers* for pursuing growth synergies, the strategic frame reduces the 'overall growth synergy strategy space' to *norm strategies* for pursuing a clearly defined *central theme* that is linked to corporate advantage. Figure 9-2 (on the next page) depicts ElectroCorp's strategic frame for the continuous realization of growth synergies.

[113] Please note that we refer to growth synergy initiatives as any coordinated undertaking that is intended to realize growth synergies. These undertakings may be projects with strategic impact (e.g. development of an integrated solution) but may also be purely operative (e.g. lead-sharing effort). Growth synergy initiatives at ElectroCorp mainly involve cross-business lead-sharing, bundling, and integration efforts. This initiative definition is closest to that of Lovas & Ghoshal (2000), who define initiatives as a deliberate effort by the firm for creating or appropriating economic value from the environment.

Figure 9-2: Strategic frame for the continuous realization of growth synergies



Source: author

ElectroCorp's managers established a clear strategic frame for synergy realization including triggers, norm strategies, and a central theme for achieving corporate advantage:

> *At ElectroCorp, four major **triggers** provided obvious reasons for pursuing growth synergies: First, intense competition and saturated markets led to commodity pressure in most of ElectroCorp's vertical businesses. Second, important customers that were buying from several of ElectroCorp's businesses were demanding better sales integration. Third, customers increasingly required solutions involving offerings from several of ElectroCorp's businesses. Finally, the capital market repeatedly denounced ElectroCorp's conglomerate discount.*
>
> *To address these triggers, corporate managers defined three dedicated **norm strategies**: lead-sharing, bundling, and integration. Each norm strategy was defined in terms of its content and rationale. Whereas the content described how incremental cross-business growth is achieved, the rationale expressed the customer benefits of the strategy (customer value proposition). For example, bundling was defined as designing and selling joint packages of offerings across businesses (content) to increase customer benefits through one-stop shopping (rationale).*
>
> *Corporate managers explicitly linked the norm strategies to a **central theme for achieving corporate advantage:** 'Bringing ElectroCorp's unique corporate portfolio to the customer to solve their problems'.*

> *ElectroCorp's managers viewed its products and service offerings (including its integration skills) as a significant source of differentiation over its competitors. As a corporate manager stated: "ElectroCorp has a unique portfolio of offerings that our competitors cannot match ... it is the breadth and depth of our products and services that differentiates us from our competitors ... this is our unique value proposition ... with our three cross-selling strategies [ElectroCorp used cross-selling as the umbrella term for lead-sharing, bundling, and integration] we bring this advantage to our customers to solve their problems" (S4: 4). During our investigation, corporate managers repeatedly emphasized that the realization of growth synergies is not a purpose in itself but that it is geared at achieving corporate advantage. As a corporate manager recalls: " ... over time we came to think about One EC not as an effort to realize synergies but as a way to achieve value for our customers ... Our unique portfolio differentiates us from our competitors ... To leverage this advantage, we have to bring this portfolio to our customers ... we have to be careful that all of our activities concentrate on that goal. Otherwise, we bundle our products together and our customers say: 'Thanks for telling us what we buy from you. We are surprised; this is quite a lot. We really should get a discount from you.' That's why we have to focus our cross-business efforts on activities that leverage our strengths and enhance customer value." (S3: 2)*

Why can a strategic frame contribute to the continuous realization of growth synergies? Our data suggests three reasons:

(1) First, a strategic frame may improve the selection of growth synergy initiatives. A strategic frame can reduce managerial perception biases, which are common among corporate managers (Goold & Campbell 1998). Perception biases lead higher-level managers to assume synergies where there are actually none or leads them to overestimate their benefits (Porter 1985; Goold & Campbell 1998; Eisenhardt & Galunic 2000; cf. Martin 2002). Framing helps to reduce these biases by ensuring that synergy realization is triggered by concrete business needs, contributes to corporate advantage, and can be addressed with concrete measures (i.e. norm strategies). In other words, framing helps to provide clarity and focus in benefit definition (cf. Campbell & Goold 2000). This ensures that valuable opportunities are pursued, not 'corporate illusions' and thus improves selection.

> *Throughout our over 2.5 yearlong investigation at ElectroCorp, which included 68 interviews at different organizational levels, we did not hear of any growth synergy project that had been subject to a perception bias, i.e. that followed a cross-business opportunity with little or no value potential. Our observations suggest that the strategic frame (together with a narrow focus and a specific organization design, which we will discuss later) spared managers from following illusive opportunities that did not make sense from a strategic point of view.*

(2) Moreover, a strategic frame may support the continuous implementation of growth synergy initiatives by facilitating collective sense-making. A strategic frame can create a common language for strategic key terms. A common language facilitates collective sense-making, which supports collaboration (Weick 1995a; Ghoshal and Bartlett 1995).

> *Throughout our interviews at ElectroCorp, we observed that the corporate center, the businesses, the divisions, and the regional companies used a similar language to discuss the realization of growth synergies. The language was established by the terminology of the strategic frame. Most interviewees referred to growth synergy realization as lead-sharing, bundling, and integration and discussed these strategies in the context of corporate advantage. Furthermore, they attached a similar meaning to these terms and seemed to have a shared understanding of the key issues involved.*

(3) Finally, by focusing attention, a strategic frame may generally support the continuous realization of growth synergies from identification to selection to implementation of growth synergy initiatives. A strategic frame provides a clear and unifying strategic objective and strategic intent (Prahalad & Doz 1987). A clear objective focuses attention (Daft & Weick 1984, Ocasio 1997) and reduces ambiguity (Weick 1995a), which sensitizes organizational members to growth synergy opportunities and stimulates decision makers to engage in the process of growth synergy realization (cf. Walsh 1995; Ocasio 1997; Chakravarthy & White 2002). Furthermore, focused attention can reduce complexity and summon the organizational energy for permanent cross-business collaboration (cf. Collins & Porras 1994; cf. Day 2006).

> *At ElectroCorp, the strategic frame seemed to focus the entire organization on the continuous realization of growth synergies. We observed that the strategic frame sent an impulse through ElectroCorp. It made growth synergies a 'relevant business issue'. This sensitized employees and mobilized decision makers at all levels of the firm. Employees began to see synergy opportunities that they had not noticed before or not regarded as important enough to bring up. As a corporate manager explained: "The strategic goals set by OneEC bring awareness to cross-business collaboration. People start to think about cross-selling.[114] They recognize opportunities that they have not paid attention to before. In the future, people will need to have a good reason when they do not pursue obvious cross-business growth opportunities." (S4: 6)*

[114] ElectroCorp's corporate managers referred to 'cross-selling' as a super-ordinate term for lead-sharing, bundling, and integration.

9.1.2 Narrow Scope on adequate domains

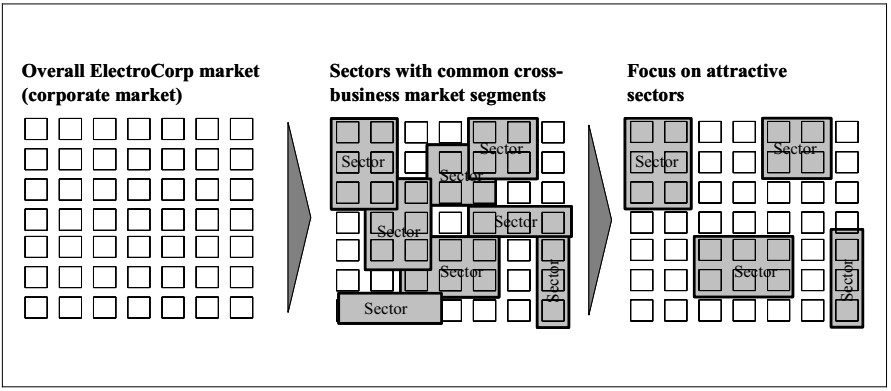
Within the boundaries of the strategic frame, ElectroCorp's corporate managers narrowed the scope of synergy realization on specific domains with high current and future potential for growth synergies. We first discuss the general characteristics and influence of a narrow scope on the continuous realization of growth synergies. Subsequently, we elaborate the specific characteristics and influence of the focal domain that constitutes the narrow scope.

(1) Narrow Scope

A narrow scope refines the cross-business domains for the continuous realization of growth synergies. A domain consists of the goods and/or services an organization provides and the markets or populations it serves (Thompson 1967). A narrow scope establishes a focus on a selected and clearly defined set of cross-business domains for continuous growth synergy realization. Thus, we define a narrow scope as clearly delineated cross-business domains that in sum cover only a small part of the overall corporate market within the scope of the focal MBF.

At ElectroCorp, corporate managers narrowed the scope of continuous growth synergy realization in three steps on a few selected cross-business domains, which they referred to as 'sectors' (figure 9-3).

Figure 9-3: Narrowing of scope of continuous growth synergy realization



Source: author

Managers started by resolving ElectroCorp's overall market, which is the combined market of all of ElectroCorp's businesses, into market segments.[115] *Subsequently, they identified so-called sectors with com-*

[115] A market segment is a group of customers that have similar needs (cf. Kotler et al. 2002; Wedel & Kamakura 1999).

> *mon cross-business market segments.*[116] *A sector represents an industry segment that is characterized by a group of end-customers with similar core business processes. Finally, corporate managers evaluated the attractiveness of these sectors and focused synergy realization on the most promising sectors, i.e. sectors with high current and/or future profit potential.*[117] *These were either sectors where ElectroCorp's businesses already had a strong market position or sectors were they were likely to attain an attractive position in the future.*[118]

Why did a narrow scope contribute to the successful realization of growth synergies? Our data suggests five reasons:

(1) Like the strategic frame, a narrow scope may improve the selection of growth synergy initiatives by reducing managerial perception biases. Higher-level managers frequently overestimate the benefits from synergies because they lack the required market knowledge (Goold & Campbell 1998; Eisenhardt & Galunic 2000). A narrow scope of synergy realization may reduce ambiguities (cf. Chandler 1962; Brown & Eisenhardt 1997) and may thus enable managers to obtain a more precise and realistic picture of potential synergies. That enables them to make better judgments when selecting which growth synergies to implement.

> *At ElectroCorp, narrowing the focus on sectors helped to prevent the initiation of lead-sharing, bundling, and integration initiatives in areas with little or no synergy potential. As a corporate manager explained: "The sector approach focuses our attention on the most promising areas for cross-selling*[119]*... [Furthermore, it] concentrates our efforts on the most valuable cross-business growth opportunities." (S3: 1)*

(2) A narrow scope may improve the implementation of growth synergy initiatives by improving permanent cross-business collaboration. A narrow scope can establish a

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[116] The identification of common market segments in large organizations is challenging. Corporate managers face the same challenges as researchers that aim to assess related markets. Employing SIC or NACE codes to capture common market segments does not produce reliable results (Davis & Thomas 1993; Markides & Williamson 1994). Divisions classified under the same SIC/NACE code may actually serve different customer segments, whereas divisions with different SIC/NACE codes may operate in common market segments (cf. Davis & Thomas 1993). Corporate managers at ElectroCorp solved this issue by employing a three-step approach towards identifying common market segments: (1) Using low-level NACE codes, they first classified all of ElectroCorp's economic activities. (2) They then performed an in-depth analysis of each activity and aggregated the economic activities into sectors with common end-customers and similar or connected customer core-processes. (3) Finally, they matched sectors with divisions to form cross-business market charters.

[117] Sector attractiveness was assessed through an in-depth strategic analysis of the sector including market growth, business drivers, trends, customer structure, competitive landscape, and ElectroCorp's position in the market.

[118] Future attractiveness was determined by (1) a positive influence of megatrends on the sector and (2) a fit with ElectroCorp's internal capabilities including technological base and market credibility.

[119] ElectroCorp's corporate managers referred to 'cross-selling' as a super-ordinate term for lead-sharing, bundling, and integration.

stable center of gravity that provides the heterogeneous actors involved in synergy realization a common point of reference and fosters a shared identity, which supports efficient cross-business collaboration (Drucker 1985; Schmid 2005).

> *At ElectroCorp, the narrow scope of synergy realization provided orientation for the businesses, divisions, and regions involved. Everybody was on 'the same page', understood that the focal domain for growth synergies at ElectroCorp was the sector, and could adapt accordingly. For instance, as a manager from a regional company said: "The clearly defined sector approach helps us to support our businesses [in their sales activities]. We know what is expected from us. (...) In Norway, we screened the different target sectors and analyzed where we could contribute." (S13)*

(3) Furthermore, a narrow scope may also improve implementation by ensuring sufficient funding for individual growth synergy initiatives. The continuous realization of growth synergies requires significant allocation of organizational resources (e.g., integration manager, management time in cross-business meetings, dedicated sales managers for sectors, solution developers). If these resources are spread across too many organizational domains or initiatives, the individual growth synergy initiative may be sub-optimally funded (cf. Raynor 2000a). This can lead to decreasing overall performance, or, in the worst case, to stalling projects. A narrow scope concentrates resources on a few selected growth synergy domains, which may ensure sufficient funding.

> *At ElectroCorp, several managers viewed the funding of existing sector initiatives (=growth synergy initiatives) as barely sufficient. Without the narrow focus, it would have been likely that several initiatives would have been under-funded: "Currently, businesses are only willing to invest a limited number of resources into cross-business activities. Understandably, the product-specific [vertical] business is still their first priority. (...) The concentration on selected sectors helps us to use the scarce resources wisely and permits us to achieve critical mass." (S4: 1). A business manger made a similar observation: "With the limited overall resources allocated to cross-business activities it is difficult to attract significant business ... However, concentrating these resources on a few sectors at least enables effective operations in these sectors. (...) Maybe this is the way to go. Start with limited resources concentrated on a few sectors and then increase cross-business activities once speed picks up." (S34: 1)*

(4) Moreover, a narrow scope may lead to a more efficient identification of growth synergy initiatives. In conjunction with the strategic frame, a narrow scope defines a strategic arena within which lower-level managers can freely search for growth synergies (cf. Simons 1994). Limiting the strategic choices that lower level managers can make increases the likelihood that opportunities for growth synergies are identified

which fit strategic and economic requirements. Consequently, higher-level managers have to quash fewer opportunities that are not useful for the firm. This increases the efficiency of the search process and, at the same time, helps to prevent the information overflow of higher-level managers involved in the selection of growth synergy initiatives.

> *At ElectroCorp, the search for growth synergies of lower level managers (divisional and business segment managers) was focused on the strategic arena 'growth synergy opportunity is within sector + can be realized through norm strategies + contributes to corporate advantage'. This resulted in the submission of high quality proposals for growth synergy initiatives to decision makers in the sector development and sales boards, especially by business segment managers and corporate account managers that were close to the market.*

This finding can be related to the latest research on innovation (Rivkin & Siggelkow 2006), which suggests that restrictions on low-level exploration can enhance the exploration of the firm as a whole. In line with our findings regarding synergy realization at ElectroCorp, Rivkin and Siggelkow (2006) showed that the definition of strategic 'sandboxes' in which regional innovators can 'play' may lead to exploration results that are superior to those achieved by unleashing low-level managers to freely explore.

(5) Finally, a narrow scope may support the continuous realization of growth synergies by enabling more efficient and effective organizational alignments. The continuous realization of growth synergies requires a multitude of organizational adjustments. A narrow focus reduces complexity and provides organizational developers with concrete information to plan these adjustments. They can design higher quality operational models. These models are more effective. Furthermore, they lead to alignments that are more efficient because they reduce unnecessary organizational changes. Thus, a narrow scope may be a precondition for the continuous realization of growth synergies.

> *At ElectroCorp, the narrow scope helped corporate managers to design a successful operating model that was target-oriented and focused on a few well-targeted organizational alignments. The narrow focus on sectors led to the introduction of clear secondary work-structures that could easily be integrated into the primary matrix structure (we discuss these secondary structures in chapter 9.2).*

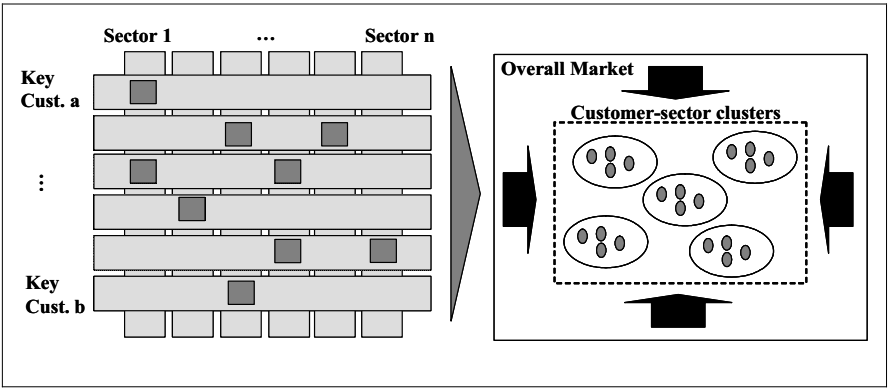
(2) Adequate Domain

An integral part of defining a narrow scope is the selection of an adequate cross-business domain to focus on. In other words, a narrow scope seems to lead to the continuous realization of growth synergies only if it focuses organizational attention on

the right 'unit of analysis'.[120]

> *ElectroCorp's managers did not just randomly narrow scope. They purposefully focused continuous growth synergy realization on a customer-centric unit of analysis, which we term the key customer-sector cluster (see figure 9-4).*

Figure 9-4: Narrow scope on key customer-sector clusters



Source: author

> *A sector at ElectroCorp represented an industry segment which is characterized by a group of end-customers with similar customer core-processes. Key customers were strategically important cross-business customers with high sales volume and international reach. The customer-sector cluster comprises defined key customers in designated sectors.*[121]

Why did a customer-centric unit of analysis contribute to the successful realization of growth synergies? Our data suggests the following reasons:

(1) First, a customer-centric unit of analysis may improve the selection of growth synergy initiatives. Benefits from growth synergies are eventually achieved by selling unique cross-business offerings that enable the firm to grow profitably. The customer, however, decides what is unique (e.g. Porter 1985) and thus ultimately determines the value potential of growth synergy initiatives. For instance, customers that do not value solutions will not be willing to pay for the extra effort that is required for bundling or integration. Consequently, the value that can be derived from a bundling or integration initiative for this group of customers is low or even negative. A customer-centric unit

[120] Please note that this means not the unit of analysis of our study but the unit of analysis of the MBF for realizing growth synergies.

[121] Note that one key customer may belong to several key customer-sector clusters.

of analysis can help to identify (segments of) customers that value cross-business solutions and can guide the design of these offerings.[122] Consequently, a customer centric unit of analysis may lead to the selection of growth synergy initiatives with higher value potential.

> *The realization of growth synergies at ElectroCorp strongly supported this line of argumentation. ElectroCorp's corporate managers viewed continuous growth synergy realization as almost synonymous with a cross-business focus on customers. As the leader of the OneEC initiative clarified: "With OneEC we increase our corporate focus on the customer ... OneEC is a cross-business customer focus growth program. We collaborate across our businesses for realizing comprehensive, customized and replicable offerings to fulfill customer needs." (S2: 2). This fact was reiterated by subsuming the OneEC initiative under the umbrella of the corporate customer focus program and not under other dedicated cross-business synergy programs that were currently ongoing at ElectroCorp.*

(2) A related reason may be that a customer centric unit of analysis may support the continuous realization of growth synergies by fostering the development of domain expertise. The realization of growth synergies focuses on the combination of resources to capture corporate value by exploiting emerging market opportunities in cross-business domains. To identify, select, and implement growth synergy initiatives that exploit these opportunities, MBFs require in-depth domain expertise. For instance, to realize growth synergies from cross-business solutions, the managers of the firm require deep domain expertise to identify and select valuable solution opportunities and to develop successful offerings for addressing these opportunities.

> *Managers at ElectroCorp saw the development of domain expertise as a precondition for the continuous growth synergy realization: "Domain expertise is a critical success factor for developing customer solutions." (M 2). They repeatedly explained that domain expertise is essential for understanding customers' businesses, value chains, and core processes, which is necessary for realizing comprehensive, customized and replicable cross-business solutions that fulfill customer needs. It was an explicit objective of the OneEC initiative to develop this domain expertise by establishing a corporate focus on sectors and key customers.*

(3) Finally, a customer-centric unit of analysis may improve the implementation of growth synergy initiatives by focusing resources. As a narrow scope on a few sectors

[122] By centering attention on a customer-centric unit of analysis (e.g. airports) and not on products (e.g. lightning systems), managers engaged in synergy realization develop a better understanding of the customer domain. This includes an improved understanding of the customer's value chain, his competition and the broader dynamics and trends in the sector. Such customer domain knowledge can aid the development of superior cross-business solutions.

ensures an appropriate resource endowment for individual sectors, the concentration on selected key customers (i.e. customer centricity) ensures that these sector resources are put to the most effective use. Key customers buy from several of the firm's businesses and are likely to profit most from cross-business solutions. Furthermore, key customers tend to be lead customers for the joint development of innovative and repeatable solutions. These (lead) solutions can be used to penetrate cross-business domains efficiently.

> *Corporate managers at ElectroCorp reiterated that the concentration on a few key customers has improved the allocation of cross-business resources within sectors: "The focus on key customers ensures that tight resources are not sprinkled across too many opportunities within a sector. We see that several sectors use key customers to prioritize their investments … Yes, I feel that the focus on key customers has improved the effectiveness of our investments in common customers." (S4: 6)*

9.1.3 Horizontal Strategies

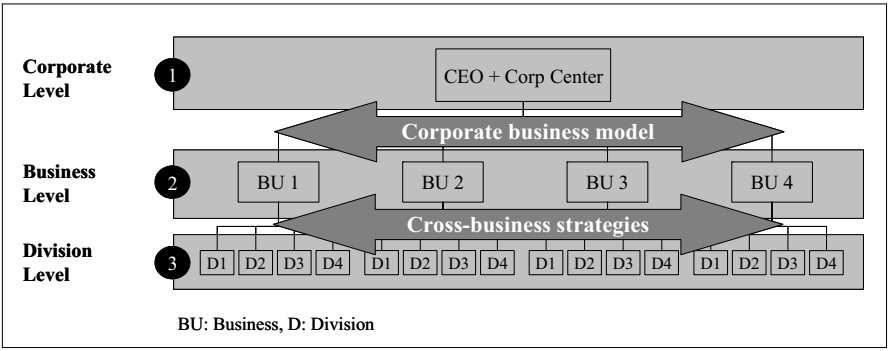
Horizontal strategies are the final component of a selective focus that we observed. We define horizontal strategies as overarching strategies that coordinate the goals of related business units to exploit growth synergies continuously and effectively (cf. Porter 1985).[123]

In large organizations such as ElectroCorp, horizontal strategies may concern several planning levels.

> *ElectroCorp plans its strategy on the corporate, business and division level (see figure 9-5 on the next page). The corporate level is concerned with planning the composition of the portfolio and the strategic interrelationships between the businesses. The business level focuses on planning the portfolio of divisions, their interrelationships and overall competitive strategy. Finally, the division level focuses on the market and competitive strategies for their specific segments.*
>
> *The horizontal strategies at ElectroCorp (corporate business model and cross-business strategies) are rooted in the corporate and the business level.*

[123] Porter (1985) originally coined this term. He referred to "*horizontal strategy*" as the coordination of "*goals and strategies of related business units*" (Porter 1985: 365).

Figure 9-5: Strategic planning levels and horizontal strategies at ElectroCorp



Source: author

We observed two types of horizontal strategies that contribute to the continuous realization of growth synergies: Horizontal strategies at the corporate level, which we refer to as **corporate business models**, are the first type. Corporate business models guide the synergistic development of the overall organization. Horizontal strategies at the business level, which we refer to as **cross-business strategies**, are the second type. Cross-business strategies guide the synergistic development of specific cross-business domains.

> *At ElectroCorp, the corporate business model is rooted in the corporate level. It guides the synergistic development of the set of related businesses. The cross-business strategies are rooted in the business level. They guide the development of the sectors, which are the cross-business domains at the divisional level that were established by corporate managers for continuous growth synergy realization.*

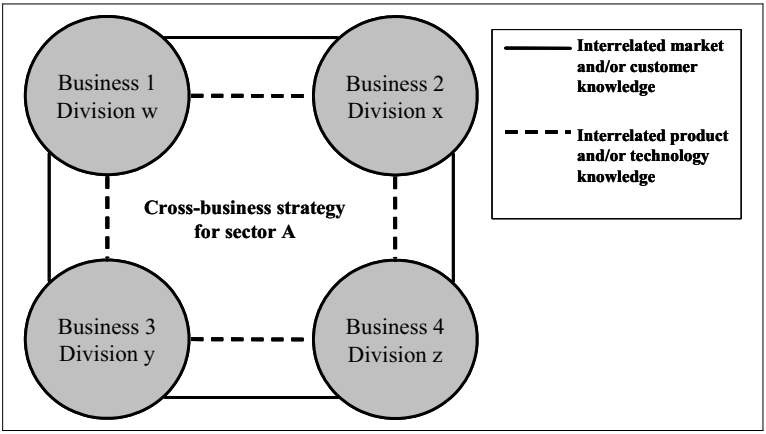
In the following, we first discuss cross-business strategies and then corporate business models.

(1) Cross-business strategies

Cross-business strategies address how two or more businesses of a firm strategically develop a cross-business domain to maximize the benefits from continuous growth synergy realization in the medium term.

> *At ElectroCorp, divisional managers develop specific cross-business strategies for every sector (sector strategies). These strategies address how businesses can leverage their interrelated market, customer, product, and technology knowledge most effectively within each sector (figure 9-6).*

Figure 9-6: Cross-business strategy at ElectroCorp (Sector Strategy)



Source: author

The sector strategies are based on an external analysis of the competitive landscape, key customers, business drivers and trends, and an internal assessment of ElectroCorp's strengths and weaknesses in the sector. The analysis results in the formulation of a dedicated sector strategy with (1) a roadmap for the development of the cross-business portfolio and sector solutions and (2) designated key accounts and lead customers for sector development.

More generally, sector strategies at ElectroCorp are overarching game plans for the pacing of growth synergy initiatives through lead-sharing, bundling, and integration.

Why did the development of cross-business strategies contribute to the continuous realization of growth synergies? Our data suggests the following reasons:

(1) A cross-business strategy may improve the selection of growth synergy initiatives by focusing attention on promising product-market segments within cross-business domains where the firm has a competitive advantage. The firm is likely to have a better internal resource base and/or external market position for some product-market segments within a sector than for others (e.g., Porter 1985; Barney 1991; Grant 1991; Amit & Shoemaker 1993). A cross-business strategy provides a more thorough assessment of cross-business resources and competitors.[124] This may improve the selec-

[124] A more thorough assessment of competition is achieved for three reasons: First, a cross-business strategy can identify additional cross-business competitors that the business level strategy misses due to its narrower focus. Second, it is likely to discover new potential competitors that are emerging from other technological domains, especially in converging markets. Finally, it captures competitor behavior more holistically by considering the ways in which actions by one business may trigger competitive responses that affect sister businesses (Porter 1985).

tion of growth synergy initiatives by clarifying the most attractive product-market segments for the firm within a cross-business domain.

> *The following example illustrates how cross-business strategies improved the selection of growth synergy initiatives at ElectroCorp: In several sectors, ElectroCorp did not have the market credibility for integrated solutions yet: "Credibility is an issue in offering cross-business solutions. In some market segments, customers do not yet have confidence in our ability to provide integrated solutions" (S5: 2). Cross-business strategies help to prevent the initiation of value-destroying growth synergy initiatives in such segments and establish plans to build credibility that opens the market for successful growth synergy initiatives in the future. As a sector manager explained: "We developed a sector strategy that maps out a clear roadmap for our solutions ... We first focus on the market segments where we have the strongest competitive positions and where we can develop solutions with lead customers. This helps us in two ways: First, we generate repeatable solutions that improve our profitability. Second, we build a reputation for our solution competence within the sector. Over time, our solution experience and credibility will enable us to penetrate the sector and expand our sector activities." (S 11)*

(2) Furthermore, a cross-business strategy may improve the implementation of growth synergy initiatives by coordinating investment decisions between the businesses. Without a cross-business strategy, businesses may make suboptimal investment decisions that endanger their competitive position (cf. Porter 1985). For example, key components of critical cross-business sector solutions may not be developed because the responsible business unit attaches little value to the investment and allocates its resources elsewhere. A cross-business strategy prioritizes individual business-level investments with a cross-business perspective and may thus ensure that strategically important growth synergy initiatives are funded.

> *At ElectroCorp, cross-business strategies aligned the investment plans of the businesses that participated in the sector: "The sector strategy coordinates the investments of the businesses. The strategy includes a business plan that details the required investments in the sector for the next years. The businesses incorporate these investment projections in their financial plans. This helps to ensure that the sectors receive the funds and products [from the participating businesses] that are necessary for successful operations." (S 11)*

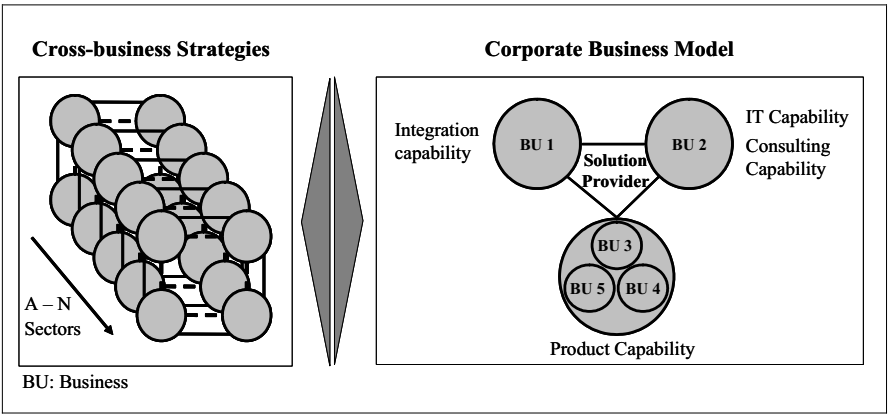
(2) Corporate Business Models

We define a corporate business model as a strategic concept at the corporate level for clusters of related businesses within the firm (cf. Müller-Stewens 2004, 2005). The business model clarifies how the related parts of the firm play together in order to

achieve corporate advantage. Based on the central strategic theme (corporate value proposition), it describes the value generation logic and the strategic interrelations between businesses. Furthermore, it associates businesses with certain meta-capabilities required for the realization of growth synergies. These capabilities translate into broad roles (and responsibilities) that the businesses follow in cross-business collaboration. Thus, within a corporate business model, businesses are not viewed as separate entities but as interdependent parts of internal 'value networks'.

At ElectroCorp, a corporate business model for the realization of growth synergies evolved over time. The corporate business model cuts across the individual cross-business strategies for the sectors (see figure 9-7 on the next page).

Figure 9-7: Cross-business strategies and corporate business model



Source: author

ElectroCorp's corporate business model was based on the corporate value proposition of becoming a solution provider in the infrastructure domain. The business model assigned specific roles to ElectroCorp's businesses for achieving this corporate value proposition. For instance, one business had the role of the technical integrator. It integrated the products of other businesses into solutions. Another business had the role of the IT expert. It contributed IT and consulting expertise to the solutions. The roles were broad but provided a general orientation regarding the function of the business in continuous growth synergy realization.

Our data suggests three reasons why a corporate business model can contribute to the continuous realization of growth synergies:

(1) First, a corporate business model may improve the realization of growth synergies by ensuring consistent resource allocations and a consistent development of the corpo-

rate portfolio. The overview of the roles of different businesses in continuous growth synergy realization that the corporate business model establishes can improve the judgment of corporate managers regarding major capital allocations including acquisitions and divestments. This is likely to lead to corporate investment decisions which are more consistent with the continuous realization of growth synergies.

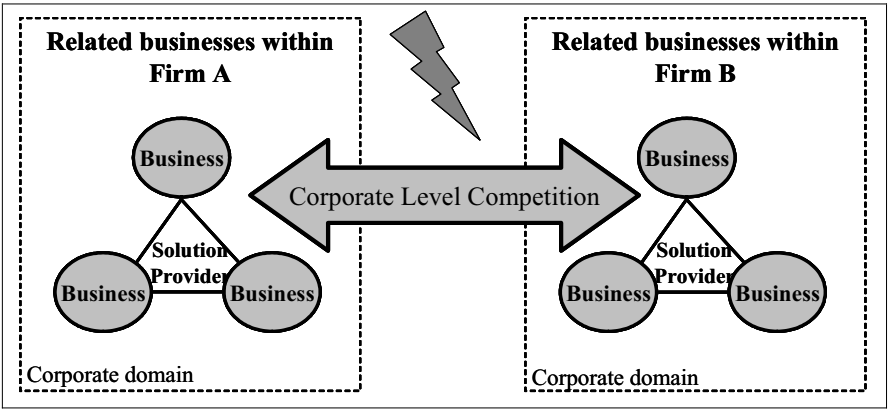
> *ElectroCorp's decision not to divest its IT services business illustrates this reasoning. The IT service business had not performed well in the past. It had achieved neither its organic growth targets nor its capital efficiency requirements. A divestment of the business was considered repeatedly. However, once ElectroCorp established the corporate business model of a 'solution provider', the divestment plans were abolished. Due to the overwhelming importance of information technology for building integrated solutions (i.e. for continuously realizing growth synergies), corporate managers decided to keep the business in the portfolio and started to develop it. Recently, ElectroCorp has acquired several industrial IT firms to strengthen the business. Thus, the corporate business model contributed to aligning the configuration of the corporate portfolio with the continuous realization of growth synergies.*

(2) Second, a corporate business model may contribute to the continuous realization of growth synergies by accelerating and guiding the evolution of respective corporate capabilities.

> *At ElectroCorp, the corporate business model seems to have contributed to the development of a companywide 'solution capability' which improves the continuous realization growth synergies. The business model may have fostered the coordinated development of specialist capabilities across businesses, such as 'integration capabilities' and 'IT capabilities', which over time recombined into a corporate 'solution capability'.*

(3) Finally, a corporate business model may improve the continuous realization of growth synergies through an improved understanding of corporate level competition and more effective corporate competitive moves. Maturing and converging markets, technological change, and regulatory changes have partly elevated competition from the business to the corporate level (cf. Porter 1985; Goold et al. 1994; Galbraith 2005; Goold & Campbell 2002). Competition no longer occurs only across businesses of competing firms but also across clusters of related businesses of competing firms pursuing a similar overall strategy within the same corporate domain (see figure 9-8 on the next page).

Figure 9-8: Corporate level competition



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The formulation of a corporate business model can help to specify the overall corporate strategy and corporate domain and may thus help to identify key competitors which business-level strategies do not capture. This may enable the firm to react earlier and more adequately to competitive threats for its cluster of related businesses, which can improve market focused cross-business activities such as the realization of growth synergies.

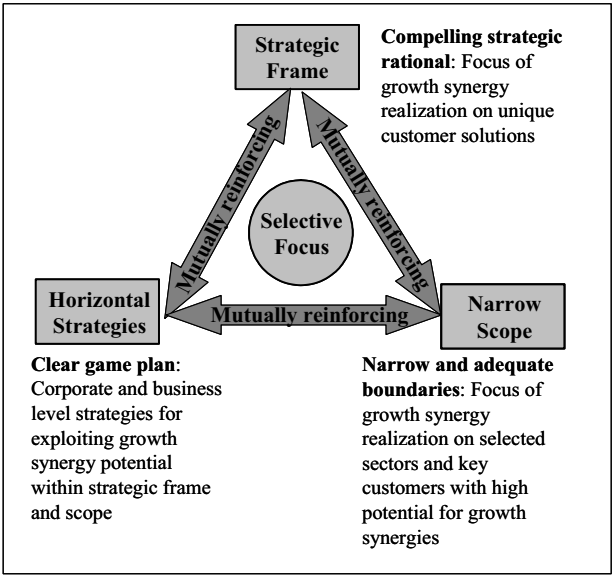
> *ElectroCorp competes with other multi-business firms within its corporate domain that also follow a corporate solution strategy across a related set of businesses. The corporate view on these competitors, which is improved by the corporate business model, led to the identification of corporate competitors which could potentially erode the competitive position of ElectroCorp's businesses and commoditize their products. For instance, the IT firm IBM threatened several of ElectroCorp's businesses by bundling their IT solutions with shop floor products such as automation systems from third party providers. The danger was that such bundles could commoditize ElectroCorp's products: IBM would have an exclusive selling relationship with the customer for the whole solution. Within that solution, ElectroCorp's products would be an exchangeable component. This would make it difficult for ElectroCorp's businesses to differentiate their products. Consequently, over time they would become commodities. The business model helped to identify this threat early on and to react accordingly. The resulting alignments of the corporate portfolio and the strategic perspective for cross-business collaboration contributed to the continuous realization of growth synergies.*[125]

[125] The strategic threat of corporate competitors on business-level profitability – that the corporate business

9.1.4 Complementarity of strategic concept elements

We observed that the elements of the strategic concept – strategic frame, narrow scope, and horizontal strategies – are complementary, i.e. they are mutually reinforcing and work together as a system (cf. Milgrom & Roberts 1992; Roberts 2004) to create a selective focus that facilitates strategic guidance (see figure 9-9).

Figure 9-9: Complementarity of strategic concept elements



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The system works as follows: The strategic frame provides a compelling strategic rationale that focuses the realization of growth synergies on achieving corporate advantage. Within the boundaries of this frame, the narrow scope concentrates growth synergy realization on attractive cross-business domains. Within and across these domains, horizontal strategies provide clear game plans for the continuous exploitation of growth synergy potential. Thus, in conjunction, the elements of the strategic concept facilitate strategic guidance for the continuous realization of growth synergies.

> *At ElectroCorp, the strategic frame focuses growth synergy realization on bringing unique cross-business solutions to ElectroCorp's customers*

model helped to identify – was incorporated into the strategic frame for growth synergy realization. It improved cross-business collaboration by creating a sense of urgency and facilitating strategic sense-making (motto: 'we have to collaborate permanently across businesses to fight corporate competitors and to secure our business level profitability').

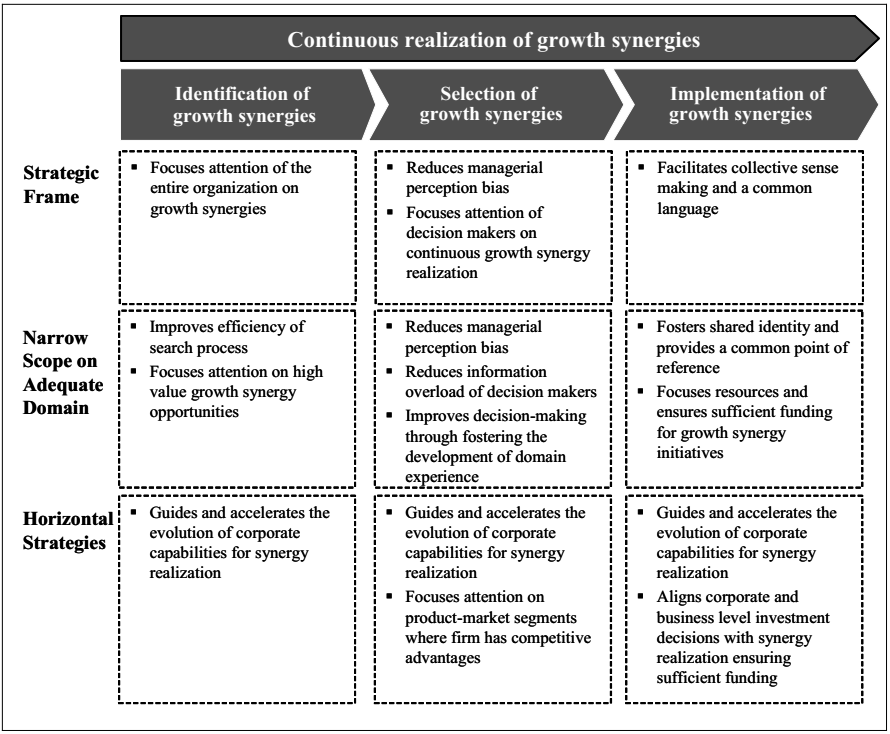
through lead-sharing, bundling, and integration. Within that strategic frame, the realization of growth synergies is concentrated on selected sectors and key customers. Horizontal strategies establish game plans for exploiting the growth synergy potential within these sectors efficiently and effectively; the corporate business model on the corporate level and the sector strategies on the business/divisional level.

9.1.5 Summary and Propositions

In summary, our results suggest that a strategic concept that establishes a selective focus on few strategic areas of cross-business growth is a key success factor for continuous growth synergy realization. We showed that such a selected focus can be achieved through a strategic frame that provides a compelling strategic rationale for continuous growth synergy realization, a narrow scope that focuses synergy realization on the most attractive cross-business growth opportunities, and horizontal strategies that establish specific game plans for exploiting these opportunities.

Specifically, our data suggests that a selective focus contributes to continuous growth synergy realization by improving the identification, selection and implementation of growth synergy initiatives. Figure 9-10 summarizes the proposed influence of a selective focus on these three core activities of synergy realization.

Figure 9-10: Impact of selective focus on continuous growth synergy realization



Source: author

While the components of the strategic focus have independent effects on continuous growth synergy realization, our observations suggest that they may also have a joint systems effect. Strategic frame, narrow scope, and horizontal strategies are complementary and work together as a system to facilitate strategic guidance for the continuous realization of growth synergies.

These findings emphasize the importance of strategic guidance for the continuous realization of growth synergies. Managers that engage in permanent cross-business collaboration appear to require strategic guidance to continuously identify, select, and implement successful growth synergy initiatives. These insights contrast with prior studies on synergy realization in dynamic markets through temporary cross-business collaborations (e.g., Eisenhardt & Galunic 2000; Martin 2002), which do not seem to attach any importance to strategic context factors.

Broadly, our findings can be related to the research on the relationship between the content and success of strategic initiatives (e.g., Schmid 2005). This line of research indicates that focused strategic initiatives are more successful than initiatives that pursue broader goals (Schmid 2005). Additionally, some literature on strategy process supports our findings. Strategy process research suggests that focused corporate goals that reflect the preferred future position of the firm (as established by a selective focus) can increase the selection quality of strategic initiatives (Lovas & Ghoshal 2000) and clarify the opportunity space of the organization (Simons 1994). Furthermore, the attention-based view of the firm (Simon 1947; Ocasio 1997) suggests that a selective focus of attention on specific issues facilitates strategic actions through concentrating the energy, effort, and mindfulness of decision-makers.

The following propositions summarize the key findings of this section:

Proposition 1 (strategic concept): The continuous realization of growth synergies is associated with a strategic concept that establishes a selective focus on specific growth synergy opportunities.

The following propositions elaborate the elements of a selective focus:

- **Proposition 1a (strategic frame):** The existence of a strategic frame that focuses growth synergy realization on a central strategic theme linked to corporate advantage and provides overarching norm strategies for synergy realization is positively related to continuous growth synergy realization.
- **Proposition 1b (narrow scope):** A narrow scope that employs a customer-centric unit of analysis to focus synergy realization on selected cross-business domains is positively related to continuous growth synergy realization.

- **Proposition 1c (horizontal strategies):** The existence of horizontal strategies that guide the exploitation of growth synergy opportunities is positively related to continuous growth synergy realization.

While these components have an independent effect on the continuous realization of growth synergies, they are mutually reinforcing. Only in conjunction do they form a strategic concept that leverages the full benefits of a selective focus:

- **Proposition 1d (complementarity of strategic concept elements):** The simultaneous existence of a strategic fame, narrow scope, and horizontal strategies leads to higher levels of continuous growth synergy realization than the existence of any single element in isolation (system effect).

9.2 Organization Design: Decentralized Collaboration

Previous research on related diversification suggests organizational designs with cooperative organizational arrangements for the effective realization of operative synergies (e.g., Ansoff 1965; Rumelt 1970; Wrigley 1970; Hill & Hoskisson 1987; Hill et al. 1992). These designs usually include high degrees of centralization, weak non-financial controls, corporate-level incentives, and complex integration mechanisms (e.g., Hill et al. 1992). In particular, studies stress that it is necessary for efficient synergy realization to limit business unit self-interest through centralized decision-making at the corporate center and the use of non-financial, behavioral controls for evaluating business unit performance (e.g., Ansoff 1965; Rumelt 1970; Wrigley 1970; Hill & Hoskisson 1987; Hill et al. 1992).

The results from this study suggest an alternative view. Our observations suggest that continuous growth synergy realization is achieved through an organization design that stimulates rather than restricts business unit self-interest. At ElectroCorp, the successful realization of growth synergies is based on a design of **decentralized collaboration** which combines cooperative design elements (corporate-level incentives and strong integration mechanisms) with competitive design elements (decentralization and strong financial controls) to facilitate productive business unit self-interest and to balance stability and flexibility for continuous and efficient growth synergy realization. Our study also suggests a new type of integration mechanism, the secondary work-structure, which is particularly significant for the continuous realization of growth synergies.

In the following, we explain the specific design elements of decentralized collaboration, ground them in data and the existing literature, and discuss why and how they contribute to continuous growth synergy realization. We start with decentralization (9.2.1), followed by strong financial controls (9.2.2), corporate-level incentives (9.2.3), and strong integration mechanisms including secondary work-structures (9.2.4). Then, we explore the mutually reinforcing nature of these elements (9.2.5). We close the chapter with a summary and propositions (9.2.6).

9.2.1 Decentralization

Literature on related diversification suggests centralized organizational arrangements for the continuous realization of synergies to ensure efficient collaboration (Ansoff 1965; Rumelt 1970; Wrigley 1970; Hill & Hoskisson 1987; Hill et al. 1992). The argument is that the corporate center is in the best position to facilitate coordination between interdependent businesses of the firm (Pitts 1977; Mintzberg 1983; Child 1984) and to resolve conflicts (Boulding 1964). Furthermore, corporate management needs to control the opportunism of business-level managers who would otherwise neglect their contribution to cross-business issues and shared resources (Williamson 1975).

However, the evidence from this study suggests a contrasting view. The continuous realization of growth synergies at ElectroCorp is highly decentralized. The businesses governed synergy realization, not the corporate center. As a corporate manager explained:

> *"The approach that we follow with OneEC is a decentralized one. Our businesses are autonomous. The corporate center does not assume any operational responsibilities. We do not intervene in business-level operations …we do not actively coordinate business affairs … and it is not our task to resolve conflicts between businesses." (S14: 2)*

Several managers viewed decentralization as a central success factor for the realization of growth synergies.

> *"Decentralization clearly is a success factor of our organizational approach [for realizing growth synergies]. A centralized design would not work for this – at least not at ElectroCorp." (S4: 1)*

In particular, we observed that the decentralized governance of growth synergy realization involved (1) the decentralized identification of growth synergy initiatives, (2) decentralized decisions on the selection and implementation of growth synergy initiatives, and (3) the decentralized funding of growth synergy realization.

(1) Decentralized identification of growth synergy initiatives

The identification of growth synergy initiatives at ElectroCorp is decentralized. It takes place at the business level with no involvement from the corporate center:

> *"The sector development boards [which are located at the business/division level] identify the opportunities for lead-sharing, bundling, and integration … We [in the corporate center] have a passive role. We establish the structures that enable our businesses to identify these opportunities but we are not involved in their actual identification." (S4: 1)*

Why can decentralized identification of growth synergy initiatives improve the continuous realization of growth synergies? The reason that our data suggests is that the involvement of a large number of business managers in the identification of growth synergies may lead to the identification of more synergy opportunities from which to select. Eventually, this may lead to higher quality growth synergy initiatives.

> *At ElectroCorp over 70 business managers are directly involved in growth synergy management through their work in sector development boards or corporate account management teams. As these managers are supported by sector support teams and other regional cross-business teams, the overall number of people actively concerned with the identification of growth synergies is in the range of 400 - 450 employees. This*

> *number is much higher than any number of corporate managers that ElectroCorp could have assigned to the central identification of growth synergies at the corporate center.*

This argument is consistent with the variation reasoning of evolutionary theory (Aldrich 1999). Furthermore, it is in line with research on the management of cross-business initiatives in dynamic environments, which suggests that high performing cross-business initiatives originate from the business units and not from the corporate center (Martin 2002).

(2) Decentralized decisions on the selection and implementation of growth synergy initiatives

ElectroCorp's corporate managers decentralized the strategic and operational decisions regarding the selection and implementation of growth synergy initiatives to the business level. Within the boundaries of designated cross-business domains (sectors) and the strategic frame, businesses had complete autonomy over the selection and implementation of growth synergy initiatives:

> *"We follow a decentralized approach [for realizing growth synergies]… The businesses decide which offerings they bundle or integrate and which resources they allocate to sectors." (S4: 1)*

Why can business unit autonomy regarding decisions on the selection and implementation of growth synergy initiatives contribute to the continuous realization of growth synergies? Our data suggests the following reasons:

(1) One reason may be that decentralized decision-making that grants businesses autonomy in the selection and implementation of growth synergy initiatives is a basic condition for growth synergy realization. The realization of growth synergies requires fast execution: Opportunities for growth synergies are frequently of a temporary nature, particularly in a business-to-business environment. For instance, a lead-sharing or bundling opportunity only exists during the time of the customer decision. Once made, the synergy opportunity ceases to exist. Furthermore, integrated solutions need to be introduced at the beginning of the market cycle to achieve repeated sales that justify the usually high development costs. Decentralized decision-making provides the flexibility and responsiveness (e.g., Burns & Stalker 1961; Mintzberg 1979), which allows capturing the temporary market opportunities that lead to growth synergies.

(2) Another reason may be that business-level decisions improve the selection of growth synergy initiatives. Business-level managers are much closer to the day-to-day actions than corporate managers are (e.g., Eccles & White 1986). Consequently, they can better judge the needs of the market and have a more detailed understanding of the resources and capabilities of their businesses. Therefore, they have a more realistic and concrete picture of synergy realization. They are more capable of judging the value of

specific growth synergy initiatives and the feasibility of their implementation. Thus, decentralized decisions may improve the selection of growth synergy initiatives.

> *Corporate managers at ElectroCorp reiterated the information advantage of business-level managers in the selection of growth synergy initiatives several times: "The decentralized design of the sector approach is a definite strength. The business managers are in the best position to decide on the implementation of cross-business solutions. They are close to the markets and customers. They know the products and technologies. For us [corporate managers], it is impossible to make such decisions. We just don't have the necessary experience and lack the required overview of offerings, technologies, and customers." (S4: 1)*

This finding can be related to recent literature on organization design, which associates flexible structures with empowered front-line managers (so-called structured networks) with higher performance than rigid hierarchical structures with centralized decision making (e.g., Ghoshal & Bartlett 1998, Goold & Campbell 2000). Furthermore, it is in line with research on the management of cross-business initiatives in dynamic environments, which suggests that high performing initiatives are associated with business level rather than corporate-level decision processes (e.g., Martin 2002).

(3) A further reason may be that business-level decisions improve the implementation of growth synergy initiatives. Decentralized decisions involve business-level managers in the decision process regarding the pursuit of specific growth synergy initiatives and the means by which these initiatives are implemented. This involvement may foster their commitment during implementation (cf. Ghoshal & Bartlett 1994).

> *In our interviews with managers of successful sector development boards and sector support teams, we observed a high level of energy for synergy realization. The managers seemed to have great ownership in the growth synergy projects that they decided to engage in. They acted as corporate entrepreneurs that were excited to exploit emerging cross-business market opportunities. The following statement of the leader of a sector development board reflects the general attitude well: "Our opportunities in the airport sector are enormous. Few other companies can provide what we have to offer …We have identified several lucrative opportunities that we commonly agreed on to pursue. We now get to work to exploit these opportunities … it is a lot of work and a double burden because we do this on top [of our regular business] but everybody is on board and highly motivated." (S 22) Business-level managers seemed to be highly committed to implementing the growth synergy opportunities they jointly decided to pursue.*

This is consistent with findings on the management of cross-business initiatives in dynamic environments, which suggests that engaged decision-making by business-level managers leads to higher performing initiatives (Martin 2002). Furthermore, our ob-

servations can be related to literature on change management, which associates participation in change decisions with higher commitment to change (e.g., Locke & Schweiger 1979; Locke et al. 1997).

(3) Decentralized funding of growth synergy realization

ElectroCorp also decentralized the funding of continuous growth synergy realization down to the business level. The businesses have to invest their own resources in the infrastructure for ongoing synergy realization (e.g., labor and overhead costs of sector development boards and sector support teams) and in the growth synergy initiatives that they initiate. Central funding ('corporate money') is not available:

> *"We do not provide corporate funds for the realization of growth synergies. Every business has to invest its own money in its sector activities." (S 17)*

Why can decentralized funding (i.e. business-level funding) contribute to the successful realization of growth synergies?

(1) One reason may be that business-level funding improves the selection of growth synergy initiatives. If businesses invest their own money in synergy realization, they may more carefully evaluate which growth synergy initiatives they pursue because the profitability of their unit, by which they are controlled, is at stake. Evaluations that are more thorough are likely to improve initiative selection.

(2) A related reason may be that business-level funding improves the implementation of growth synergy initiatives. If businesses are allocating their own funds to the realization of growth synergies, they may be more committed to implementation. They may control the implementation more tightly and may drive execution more intensely. As a corporate manager explained:

> *"With business-level funding, the managers responsible have 'skin in the game'. They will make every possible effort to derive value from their investment. With corporate funds, this drive may be lost. Furthermore, the accountability of the businesses would be reduced as corporate would assume some responsibility through the allocation of capital. This could further reduce the commitment of the businesses to their cross-business projects" (S4: 6)*

9.2.2 Strong business-specific financial controls

Literature on related diversification and on intra-firm resource sharing suggests the use of 'weak', non-financial controls for synergy realization (Hill et al. 1992; Dooms 2005). The argument is the following: Interdependencies between related businesses lead to performance ambiguities: Poor financial performance of a certain business may be due to inefficiencies within that business, or inefficiencies within another business

with which it is tightly coupled (e.g., Vancil 1980; Gupta & Govindarajan 1986; Govindarajan & Fisher 1990). In such circumstances, objective financial criteria are unreliable indicators of business performance. Consequently, corporate managers should use subjective and behavioral measures of business performance (e.g., the degree of cooperation among interdependent businesses) along with objective non-financial measures (e.g., market share and growth) to control businesses; otherwise, they would discourage cross-business collaboration (e.g., Govindarajan & Fisher 1990; Hill et. al 1992).

However, the evidence from this study suggests otherwise. We observed that strong business-specific financial controls positively influenced continuous growth synergy realization.

Based on strict financial criteria, corporate managers at ElectroCorp exerted strong financial control over their businesses. They established and controlled business-specific financial goals and refrained from setting any cross-business targets:

> *During the yearly budgeting process at ElectroCorp, business unit general managers and corporate managers agreed on business-specific financial targets. Every general manager was responsible for delivering the financial results that he or she promised for his or her business. Consequently, corporate managers evaluated the performance of individual businesses through objective financial measures: "Our businesses are controlled by tight financial controls ... every business is required to make its target margin ... these margins are business-specific and do not include any cross-business goals ... The focus on these target margins will get even more important in the future. The message of our CEO is clear – if you do not make your financial targets, there will be consequences. " (S4: 6)*

Corporate managers deliberately stayed with this financial control style when they aligned the organization for continuous growth synergy realization. They did not complement the business-specific financial controls with dedicated (non-financial) cross-business measures. Surprisingly, even though this control style emphasized business-specific performance targets over cross-business collaboration, corporate managers viewed it as being most appropriate for continuous growth synergy realization. Even more astonishingly, business-level managers agreed with them. Why did vertical, business-specific financial controls contribute to the continuous realization of growth synergies? Our data suggests two reasons:

(1) First, strong business-specific financial controls may improve the selection of growth synergies. These controls encourage business-level managers to participate in the realization of growth synergies only when they believe it makes sense for their businesses. In other words, strong financial controls focus growth synergy realization

on initiatives that are consistent with business unit self-interest. This 'productive self-interest' may reduce the pursuit of value-destroying, low quality synergy initiatives, which can occur if collaboration is seen as an end in itself (cf. Goold et al. 1994; Goold & Campbell 1998; Eisenhardt & Galunic 2000; Goold & Campbell 2000). Guided by self-interest, businesses may only participate in growth synergy initiatives when the value-creating opportunity justifies the reallocation of resources from other existing projects within the business unit to the cross-business initiative. This implicit 'value check' may improve the selection of growth synergy initiatives. A corporate manager at ElectroCorp explained this issue:

> *"Differentiated, meaningful cross-business goals are hard to establish; especially for growth synergies. You can come up with some subjective qualitative measures; however, these are not very effective on a business level. Therefore, what you end up with is a lack of accountability and the fuzzy message to collaborate across businesses ... This will quite likely lead business unit managers to neglect their core business and will encourage them to collaborate too much. By too much, I mean that they allocate resources to cross-business projects that were better spent on the core business. They will start pouring funds into cross-business projects that are not beneficial, even from a corporate perspective ... Therefore, it is better to focus on financial targets for individual businesses [without any cross-business goals]."*[126] *(S4: 6)*

(2) Second, strong business unit-specific financial controls can establish ambitious financial targets (i.e. stretch goals: cf. Hamel & Prahalad 1993; cf. Ghoshal & Bartlett 1994) that may foster the realization of growth synergies by reducing collaborative inertia between businesses and motivating business unit general managers to engage in growth synergy realization. In other words, strong business unit-specific financial controls may mobilize (i.e. pressure) businesses to look beyond their vertical markets and consider the pursuit of growth synergies, in particular in mature and stagnating markets.

> *At ElectroCorp, a major motivation of businesses to collaborate was the exploitation of cross-business growth opportunities that could compensate for weak business-specific growth: "Our businesses can increase their individual profits and market shares through cross-business collaboration. That is their primary motivation for collaboration." (S14: 3) The strong business-unit-specific performance targets worked as ambitious stretch goals and helped to generate this growth pressure.*

[126] Another argument in the broader sense of corporate management that played a role at ElectroCorp for deciding against subjective non-financial measures of control for encouraging cross-business collaboration is the opportunism of business level managers. Non-financial measures and cross-business controls make the evaluation of business unit general managers difficult and reduce their accountability, which may increase opportunistic behavior, which may lead to declining corporate performance.

9.2.3 Corporate-level incentives

Literature on related diversification and on intra-firm resource sharing suggests the use of corporate-level incentives for synergy realization (Hill et al. 1992; Dooms 2005). The argument is that corporate-level incentives for business unit general managers emphasize cooperation rather than the individual performance of each business and may thus improve cross-business collaboration (Salter 1973; Pitts 1976; Gupta & Govindarajan 1986).

The evidence from this study supports this view but does not attribute the same importance to corporate-level incentives as prior studies did (e.g., Hill et al. 1992; Dooms 2005). ElectroCorp provided some corporate-level incentives for selected business-level managers:

> *At ElectroCorp, two groups of business-level managers receive corporate-level incentives: business unit heads and key employees in the sector organization such as the sector manager and corporate account managers. Business unit heads receive approximately 20% of their variable compensation based on corporate performance. The annual bonus of sector managers and corporate account managers is tied to a similar extent to corporate performance (15-20 % of annual bonus).*

Corporate and business managers at ElectroCorp viewed these corporate-level incentives as supportive of growth synergy realization. However, incentives seemed to play an ancillary role in the continuous realization of growth synergies. Managers at all levels reiterated that corporate-level incentives only have a negligible direct effect on cross-business collaboration:

> *A corporate manager of the OneEC initiative explained: "Corporate-level incentives can certainly support the cross-business efforts of OneEC. However, in my opinion, they do not strongly influence cooperation among business-level executives. A business unit head will not start to collaborate due to corporate-level incentives ... The lever that business unit managers have on corporate performance through cross-business collaboration is simply too small." (S4: 6)*
>
> *Similarly, the head of a sector development board stated: "Corporate-level incentives are not crucial in my opinion. Well, at least my willingness to engage in cross-business collaboration does not depend on corporate-level incentives. I can hardly influence corporate performance with my actions ..." (S 20)*

Even though corporate incentives did not seem to have a large direct effect on the focal decision of business unit general managers to engage in permanent cross-business collaboration for growth synergy realization, surprisingly, everybody we interviewed was convinced that they still were an important success factor. Why was that the case?

How can corporate-level incentives contribute to continuous growth synergy realization? Our observations suggest that corporate-level incentives have important indirect effects on growth synergy realization. Specifically, our data suggests the following reasons:

(1) First, corporate-level incentives may facilitate the development of a collaborative corporate culture (e.g., Jones 2007) that improves permanent cross-business collaboration at lower levels of the organization. While only a very limited number of business-level employees are rewarded with corporate-level incentives, the incentive scheme is usually known throughout the firm. It signals – particularly to lower level managers – that collaborative behavior is a corporate value and may thus invoke a shared identity that shapes a culture of collaboration (cf. Albert & Whetten 1985; Dutton & Dukerich 1991; Elsbach & Kramer 1996).

> *At ElectroCorp, corporate managers stressed this cultural aspect of corporate-level incentives: "Corporate incentives give us the feeling that we are not just a collection of separate businesses but one company. They create a collaborative atmosphere in which people help each other out across businesses." (S4: 4) Similarly, another corporate manager stated: "The proportion of the variable income tied to corporate performance sends an important message: It signals that we view the businesses as part of a whole and not as independent entities." (S5: 2) Finally, as one manager expressed it more figuratively, "*corporate incentives remind us that we are all in the same boat." (S6: 2)

(2) A related reason is that corporate-level incentives may reduce 'destructive self-interest' of businesses. Decentralization and strong financial controls may lead to harmful self-interest between businesses, which hinders collaboration and reduces the investment in common pool resources such as sector development boards at ElectroCorp (e.g., Williamson 1975; Hitt et al. 1992; Poppo 2003). A collaborative culture that corporate-level incentives may facilitate can lower business unit opportunism (cf. Barnard 1938; Ashforth & Mael 1989; Dutton 1994; Ghoshal & Bartlett 1994; Galunic & Eisenhardt 1996, 2001) and may thus reduce 'harmful self-interest'.

(3) Finally, corporate-level incentives may motivate key employees engaged in the realization of growth synergies to collaborate across businesses (in addition to business unit general managers as suggested by the existing literature) by fostering their identification with the whole organization (i.e. creation of a 'one firm' feeling). This argument is consistent with social identity theory, which suggests that organizational identity prompts increased cooperation with other organizational members because of heightened sense of ingroup (Dutton et al 1994).

> *At ElectroCorp, the sector managers and the corporate account managers were full-time integration managers. Realizing growth synergies was part of their job responsibilities. Thus, corporate incentives were not*

> *necessary to ensure their engagement in synergy realization. However, while not necessary, corporate incentives were regarded as a promoter of corporate identity and as an additional source of motivation for their tough job: "The incentives for the corporate account managers and the sector managers remind them that they represent ElectroCorp in sum. They make them feel more like a corporate manager and may motivate them to act on the behalf of the whole organization …This is especially important for the corporate account managers that frequently have strong emotional affiliations to a specific business." (S4: 4)*

In conclusion, these findings contrast with prior research in related diversification, which emphasizes the direct effect of corporate-level incentives on the decisions of business unit heads to collaborate across businesses (e.g., Hitt et al. 1992; Dooms 2005). The results from this study suggest that corporate-level incentives have a more indirect effect on growth synergy realization by shaping a collaborative corporate culture and motivating lower level employees.

9.2.4 Strong integration mechanisms

Literature on related diversification and knowledge management suggests the use of integration mechanisms for the realization of operative synergies (e.g., Hill et. al 1992; Gupta & Govindarajan 2000, O'Donell 2000).

The evidence from this study supports this broad observation. However, it suggests a more differentiated view. Our data indicates that the extensive use of integration mechanisms alone may not lead to the continuous realization of growth synergies. Rather, success may depend on the choice of a complementary set of specific integration mechanisms. Furthermore, our study suggests a new type of integration mechanism, the secondary work-structure, which is particularly significant for continuous growth synergy realization.

We observed three types of mutually supporting integration mechanisms that contribute to the continuous realization of growth synergies: (1) formal work-structures, (2) joint information systems and (3) socio-cultural mechanisms.

We proceed by defining each of these three integration mechanisms, describing their nature and discussing their contribution to continuous growth synergy realization.

(1) Formal work-structures

We define formal work-structures as sets of prescribed rules, structures and procedures that organize cross-business collaboration. At ElectroCorp, we observed two different kinds of formal work-structures: (a) secondary work-structures and (b) operational rules.

(a) Secondary work-structures

We define secondary work-structures as permanent formal coordination mechanisms that consist of business-level managers, have clearly defined roles and complement the primary organization structure without profit and loss responsibility. Roles specify the broad responsibilities, reporting relationships, and accountabilities of the coordinating entities within the overall organization.

Secondary work-structures are organizational entities for permanent cross-business collaboration. They form a distinct unit of (corporate) governance in MBFs for the continuous realization of growth synergies, i.e. the identification, selection, and implementation of growth synergy initiatives.

Corporate managers at ElectroCorp viewed secondary work-structures as an important aspect of growth synergy realization:

> *"[For the realization of growth synergies] it is important to establish some binding cross-business structures with clear responsibilities. Without them cross-business collaboration just does not work." (S14: 3)*

We observed two different kinds of secondary work-structures at ElectroCorp that corporate managers prescribed: decision-making structures and operational structures. Figure 9-11 (on the next page) gives an overview.

Figure 9-11: Overview of secondary work-structures at ElectroCorp

Name	Type	Members/ Status	Role
Sales board	Decision-making	Business unit heads (general managers)	**Responsibilities:** Strategic tasks ▪ Funding of sectors ▪ Staffing of key sector positions ▪ Resolution of conflicts ▪ Initiation of activities in new sector ▪ Addition of new businesses to SDB **Reporting Relationship**: Autonomous **Accountability**: None, self-regulating
Sector develop-ment board	Decision-making	Division heads (middle managers)	**Responsibilities:** Strategic tasks ▪ Sector strategy ▪ Selection of growth synergy initiatives ▪ Funding of growth synergy initiatives within sector ▪ Staffing of key positions in growth synergy ini-tiatives ▪ Procedural rules within sector, tasks of team members **Reporting Relationship**: Sales board **Accountability**: Goals set by sales board
Sector support team	Operational (+ decision support for SDB)	Segment heads (first-line managers)	**Responsibilities:** Strategic and operational tasks ▪ Execution of SDB decisions ▪ Recommendation on sector strategy and sector business plans ▪ Identification of growth synergy initiatives ▪ Coordination of implementation of growth syn-ergy initiatives **Reporting Relationship**: Sales board **Accountability**: Goals set by sales board
Corporate account manager	Operational	Special in-tegration managers (status of division head)	**Responsibilities:** Operational tasks (sales) **Reporting Relationship**: Sector development board **Accountability**: Goals set by sector development board

Source: Interviews (S3:1; S4:1), internal company documents (P2; P8)

Secondary decision-making structures: We define secondary decision-making struc-tures as permanent and formal multi-business boards that have the responsibility and formal authority to make decisions on cross-business issues. A multi-business board is a board that consists of managers from different businesses of the firm.

> *ElectroCorp's corporate managers established secondary decision-making structures at the business and the division level. The* ***business-level structure****, the sales board, consisted of the group of ElectroCorp's general managers, who run each of the businesses (business heads). It was the overall decision-making body for the continuous realization of growth synergies. The sales board decided on resource allocation to different sectors, the staffing of key sector positions, the addition of new businesses to existing sectors, and the initiation of new cross-business sector activities. The* ***division-level structure****, the sector development board, consisted of the group of middle managers from ElectroCorp's different businesses running the divisions that participated in a sector (division heads). For every sector, a separate sector development board had been established. The sector development board was the decision-making body for the continuous realization of growth synergies within the sector. It decided on the sector strategy, resource allocation within the sector, and the staffing of key positions in growth synergy projects.*[127]

Why did secondary decision-making structures at ElectroCorp contribute to the successful realization of growth synergies?

(1) One reason may be that secondary decision-making structures are a basic condition for the continuous realization of growth synergies within a decentralized organizational approach. Secondary decision-making structures bring decision makers together in a structured context and on a regular basis. This may establish trust, which is the willingness to be vulnerable because of the expectations of positive behavior (e.g., Hitt et al. 2001, 2007). Trust may be a vital condition for the ongoing realization of growth synergies. The argument is the following: Trust can reduce the need to write detailed formal contracts for cross-business collaboration (Jennings et al. 2000; Dirks & Ferrin 2001; cf. Ferrin & Dirks 2003). Growth synergies are based on emerging market- and customer-sales-opportunities and thus are difficult to plan for – even in moderately dynamic environments. Thus, the required behavior of each business in their realization is almost impossible to specify in detailed formal contracts. Consequently, trust between businesses is a necessity for the realization of growth synergies. Without trust, the internal market for growth synergies would fail (cf. Williamson 1975). As secondary decision-making structures can facilitate trust in decentralized structures, they may be a basic condition for synergy realization. Corporate managers at ElectroCorp who were involved in the initiation of cross-business collaboration confirmed this reasoning:

> *"We learned that sector collaboration requires formal structures … Recently, we [as corporate center] suggested that several businesses*

[127] The case study in chapter 8 provides in-depth descriptions of these structures.

> *should collaborate on a specific topic in the Hercules Sector*[128]*... The joint growth opportunities were great. However, collaboration did not come about. The situation improved once we established a formal sector development board and the people got together a couple of times. People have to get to know each other and form a basis of trust. Before that, advanced cross-business activities are worthless." (S15: 4)*

(2) A related reason may be that secondary decision-making structures reduce the costs of growth synergy realization. As discussed, secondary decision-making structures can build trust. Trust may lower transaction costs by reducing the costs associated with writing and monitoring formal contracts for cross-business collaboration (cf. Dyer & Wujin 2003). This reasoning can be related to research on strategic alliances, which has shown that alliance partners that establish mutual trust are able to maximize their collaborative value (Dyer 1997).

(3) Another reason may be that secondary decision-making structures focus ongoing attention on growth synergies which may contribute to their continuous realization. The attention-based view of the firm (Simon 1947; Ocasio 1997) suggests that decision-making channels such as secondary decision-making structures focus the limited attention capacity of organizational actors (Simon 1947) on specific issues and tasks. By channeling the energy, effort, and mindfulness of decision-makers, this selective focus of attention facilitates strategic actions (Ocasio 1997). Consequently, secondary decision-making structures may contribute to continuous growth synergy realization by facilitating the required strategic actions of decision-makers.

> *At ElectroCorp, the establishment of the sector organization clearly focused the attention of the businesses on continuous growth synergy realization: "The sector organization focuses our businesses on penetrating cross-business sectors and key customers [i.e. growth synergy realization]." (S3: 1)*

(4) A related reason may be that secondary decision-making structures improve the identification of growth synergy initiatives. Through frequent meetings with their peers from other businesses, decision-makers attain a wider, horizontal perspective on markets and technologies. Over time, this may lead to a shared intuition among the business managers regarding the patterns shaping their common markets (Eisenhardt & Galunic 2000). The more holistic perspective and the common understanding of industry patterns may foster the identification of opportunities for growth synergies. In particular, the horizontal perspective may improve the discovery of emerging growth synergies from 'inter-connected market changes' (cf. Porter 1985) and other opportunities for synergistic innovations.

[128] The real name of the sector has been changed for reasons of confidentiality.

> *Corporate managers at ElectroCorp observed that the sector development board meetings changed the perspective of division managers and enabled them to see new opportunities for cross-business collaboration that they had not recognized before: "[Since the introduction of the sector development boards] you can clearly notice a change in market perception among division managers. Now, several managers are seeing the potential of cross-business solutions." (S4: 4) Similarly, the head of the sector development board 'Poseidon'[129] emphasized: "The sector development board gave us a new perspective on the industry ... We understand our customers more holistically ... We are becoming more innovative. We now pursue opportunities that we have not seen before ... I would even say in the future, we might be a major driver of innovation in that sector." (S20)*

In essence, a horizontal perspective may increase what Penrose (1959) terms the 'productive opportunity' of the firm. The 'productive opportunity' of the firm "*(...) comprises all of the productive possibilities that its 'entrepreneurs' see and can take advantage of*" (Penrose 1959: 31).

(5) Another reason may be that secondary decision-making structures improve the selection and implementation of growth synergy initiatives. Secondary decision-making structures may provide business managers a forum for debating the pursuit of growth synergy initiatives and the means for their implementation. Such an engaged cross-business decision process may clarify the value potential of the initiative, point out the required resource trade-offs for implementation, and foster commitment to the initiative (Martin 2002) and may therefore improve the selection and implementation of growth synergy initiatives.

(6) A further reason may be that secondary decision-making structures establish and diffuse collaborative values that translate into a culture of cooperation. Secondary decision-making structures provide stable role relationships for continuous decision-making. Out of these relationships, shared values for collaboration can emerge (e.g., Jones 2007). These values shape the behavior of the firm's executives, who are the people working in secondary structures (business unit heads, division heads, and business segment heads). Executives have a great influence on the culture of their businesses (e.g., Schein 1983; Miller et al. 1982; Miller & Toulouse 1986; George 1990). Thus, over time, secondary decision-making structures may facilitate the establishment of a culture of collaboration among businesses, which is beneficial for the continuous realization of growth synergies.

> *Several managers at ElectroCorp provided support for this line of argumentation, for instance: "If I compare the atmosphere now to that at*

[129] The real name of the sector has been changed for reasons of confidentiality.

> *the beginning of OneEC, it is far more collaborative now. Obviously not everybody is convinced yet, but the collaborative atmosphere seems to spill over from the members of the successful sector development boards and multiply throughout the organization." (S4: 4)*

(7) A final reason may be that secondary decision-making structures lead to the development of higher quality cross-business strategies, which may improve the realization of growth synergies as we have shown in the previous section. Joint decision-making in secondary structures can improve cross-business strategies in two ways: First, continuous joint decision-making may enable general managers to establish consistent strategic goals for synergy realization (cf. Porter 1985). Second, continuous joint decisions may result in joint learning, which leads to an improved distribution of tasks between businesses for synergy realization. General managers may gain a better understanding of their mutual strengths and weaknesses in synergy realization. Consequently, they may develop strategies that divide tasks across businesses in a way that leverages strengths, balances weaknesses, and establishes clear turf boundaries (e.g., Eisenhardt & Galunic 2000).

> *The head of the sector support team for the Poseidon sector explained that the continuous discussion between decision makers in the sector organization led to viable sector strategies: "We developed an explicit strategy for the Poseidon sector ... The strategy is discussed and refined in the sector development board and then presented to the sales board. While the involvement of so many decision-makers is sometime tedious because everybody wants to add their little part to it, it really improves our development of the sector [i.e. the continuous realization of growth synergies in the sector]. The discussions improve the quality of our strategy ... The strategy prioritizes the resource investments for our sector and helps us to leverage our combined strengths in an effective way ... It is still too early to tell, but I personally think that after a while we will operate in the sector in a similar fashion as in our vertical businesses. Over time, the cross-business decisions, goals, and strategies in the sector development board will become part of the usual strategy process." (S11)*

Secondary operating structures: Secondary operating structures are another type of secondary work-structure that we observed. We define secondary operating structures as permanent and formal multi-business teams or integrators with clearly defined roles that coordinate cross-business collaboration but do not have any formal decision-making authority. A multi-business team is a team that consists of members from different businesses of the firm (e.g., Eisenhardt & Galunic 2000; Martin 2002). An integrator is a full-time business-level leader of a multi-business team (e.g., Galbraith 1994, 2005).

Our data suggests the following reasons why secondary operating structures contribute to the continuous realization of growth synergies:

(1) One reason may be that secondary operating structures improve the implementation of growth synergy initiatives because they are highly motivating. Secondary operating structures facilitate extensive and open communication between colleagues from different businesses on the same hierarchical level. Furthermore, the clear roles and responsibilities provide autonomy and accountability for significant aspects of the task. High levels of communication, autonomy, and accountability create intrinsic job motivation (Hackman & Oldham 1975), which is likely to improve synergy realization. This intrinsic motivation may be especially important in a decentralized approach of synergy realization that emphasizes financial controls and does not provide corporate incentives for the lower level managers that work in the secondary operating structures.

> *During our interviews with members of two different sector support teams, we observed a high level of energy and motivation. The motivation seemed to result from clearly defined responsibilities and the resulting work autonomy that the whole team had in operating the sector (this included work autonomy for the following tasks: the development of sector marketing concepts, steering of key growth synergy initiatives in the sector such as the development of repeatable solutions, and support of key account managers). We had the impression that several team members felt like corporate entrepreneurs and enjoyed working as a self-managed team to explore adjacencies of their mainstream businesses: "This work [in the sector support team] certainly is a high burden as it comes on top of my regular job [as a segment head in the vertical business]. However, the sector work is interesting, the setup permits us to be quite creative … and it is a challenge to work with limited resources. Furthermore, the sector is a seminal extension of my business segment … The sector approach may well be the way to make business in the future … No; we do not get any cross-business incentives. Incentives would be nice; however, right now the work is rewarding enough." (S11)*

(2) Furthermore, secondary operating structures may improve the implementation of growth synergy initiatives by enhancing the efficiency of cross-business collaboration. Efficiency enhancements may stem from several effects of clear roles and responsibilities on cross-business collaboration: First, clear roles and responsibilities can decrease the duplication of effort. Second, they may reduce managerial resources necessary for conflict resolution (Jehn 1997; Wall & Callister 1995; Lippitt 1982). Third, clear roles and responsibilities may lower costs by reducing the complexity of cross-business operations. The realization of growth synergies is complex. It requires mutual adjustments across businesses to develop cross-business offerings and at the same time adapt

to an evolving environment. Secondary operating structures can provide an overarching framework for mutual adjustments that reduces complexity (cf. Brown & Eisenhardt 1997). Fourth, clear and stable roles and responsibilities may lower costs by reducing communication problems and preventing the distortion of information (e.g., Jones 2007).

> *An internal analysis of the collaboration costs at ElectroCorp supports this argumentation. As a corporate manager remarked: "We asked some 'complexity consultants' from our corporate technology unit to analyze our sector operations, specifically the work structures of sector support teams and corporate account management. The analysis concluded that the formal sector approach is more efficient than more informal business-specific forms of cross-business collaboration." Furthermore, another corporate manager reiterated "… it is important to establish some binding cross-business structures with clear responsibilities. Without these structures cross-business collaboration would be chaotic and inefficient." (S4: 3)*

(3) Another reason may be that secondary operating structures improve growth synergy realization by fostering learning and diffusing as well as preserving knowledge: First, secondary operating structures foster repeated collaboration in stable structures, which can produce positive learning effects and may lead to the emergence of routines that improve the efficiency and effectiveness of collaboration between team members (cf. Daft & Lengl 1986; Brenner & Tushman 2003).

Second, the increased formalization of cross-business collaboration through secondary operating structures makes existing knowledge and skills explicit and accelerates the diffusion of knowledge (cf. Zander and Kogut 1995).

Finally, secondary operating structures may serve as cross-business knowledge repositories (cf. Nonaka 1991; Jones 2007). In contrast to temporary cross-business collaborations (e.g., Martin 2002), where knowledge is usually dispersed throughout the organization and frequently lost after the initiative has been completed and the initiative team has been dissolved, secondary operating structures preserve the knowledge of prior cross-business collaborations. This may be particularly important in the context of continuous growth synergy realization, which regularly builds on cumulative customer and domain experience to develop solutions and identify new growth synergy opportunities.

> *Corporate managers at ElectroCorp viewed secondary work-structures as learning arenas and knowledge repositories: "Learning is an important aspect of the sector approach. The formal structures of the sector support team have the effect that a stable team with more or less the same people is involved in sector projects. These people do not have to start from the beginning every time they work on a new sector project.*

> *They can learn from their mistakes and are able to develop collaborative skills and sector expertise. Furthermore, valuable project knowledge is not as easily lost in such structures and we can build up domain experience." (S15: 4)*

> *Throughout our interviews, corporate managers specifically emphasized the importance of secondary structures for building domain expertise, i.e. industry knowledge: "Domain expertise is a critical success factor for developing integrated solutions ... The dedicated focus on industries that the sector organization creates helps us to build this expertise." (S4: 3)*

(4) A final reason may be that secondary operating structures improve the identification of growth synergy initiatives. Particularly in a business-to-business environment, opportunities for growth synergies are frequently of a temporary nature. For instance, a lead-sharing or bundling opportunity with a major customer only exists during the time of the customer buying decision. Once made, the synergy opportunity ceases to exist. The clear and stable roles and responsibilities of and internal boundaries established by secondary operating structures can foster continuous scanning of the environment for growth synergy opportunities (cf. Chandler 1962; Galunic & Eisenhardt 1996, 2001; Daft 2007). Furthermore, they may speed up the flow of information across businesses by promoting shared norms and rules (e.g., Jones 2007). This may improve the identification of temporary opportunities for growth synergies.

> *This argument is supported by the fact that significantly more growth synergy opportunities have been identified in cross-business domains for which secondary operating structures have been implemented than in cross-business domains without secondary operating structures: "We have clearly seen that businesses identify more cross-business opportunities within sectors that are covered by the sector organization." (S4: 3)*

Overall, we observed that secondary work-structures could combine the benefits of centralization (i.e. stability and overview to increase efficiency and consistency) with those of decentralization (i.e. flexibility and intimate market knowledge to capture growth synergy opportunities). Secondary decision-making structures appear to be a form of governance in the M-form that focuses on the relationships *between* businesses and that organization theory has not yet conceptualized sufficiently (cf. Martin 2002).

(b) Operational rules

We define operational rules as binding operational standards and procedures for cross-business collaboration. In contrast to secondary structures, operational rules describe the specifics of transactions and general work procedures rather than roles and responsibilities of people and organizational entities. ElectroCorp's managers referred to operational rules as "*rules of the game*", which they deemed important for the successful

realization of growth synergies.

> *We observed three operational rules at ElectroCorp: First,* ***transfer-pricing rules*** *determined how the internal transfers of products and services were handled. Second,* ***cross-business project guidelines*** *determined the set-up and management of cross-business projects including legal set-up, risk-sharing, and financing. Finally,* ***corporate recommendations*** *for the sectors virtually standardized certain documents, methods and procedures within sector development boards.*[130] *Corporate recommendations included templates for cross-business strategies and business plans, standardized employee development paths for sector and account managers, and core training elements.*[131]

Why did operational rules contribute to the continuous realization of growth synergies? Our data suggests four reasons which mainly concern the implementation of growth synergy initiatives:

(1) First, operating rules may lower the costs of collaboration. They can reduce the need for coordination (e.g., Thompson 1967; Galbraith 1973; Pugh et al. 1968) and for conflict resolution (e.g., Lippitt 1986) and may thus free up managerial capacity.

> *Several front-line managers involved in the implementation of growth synergy initiatives reiterated this fact: "The guidelines and rules that corporate implemented are important. As simple as they are, they make our work much easier. They give us a solid base for our [cross-business] work ... if there are clear standards, we do not have to negotiate and fight about everything all the time." (S23)*

(2) A related argument is that operating rules may improve the efficiency of cross-business collaboration by institutionalizing best practices. If rules and standards are based on best-practices, they can professionalize work processes. Furthermore, standardized best practices may improve efficiency by establishing a common cross-business language and work style. This communality is particularly helpful if collaboration cuts across different cross-business domains, if employees work in more than one cross-business domain, or if employees are rotated between cross-business domains.

> *The binding project guidelines and recommendations of corporate managers at ElectroCorp followed exactly the logic outlined above, as a corporate manager explains: "We highly recommend several proce-*

[130] The standardizations within the sector development boards were de-facto standards. They were not prescribed by corporate managers but highly recommended. The recommendations represented the smallest common denominator across all sectors. As the recommendations were professionalizing the activities that every sector had to perform anyway, they were usually implemented by the sector development boards and thus represented de-facto standards.

[131] Please refer to chapter 8 for in-depth descriptions of operational rules.

> *dures for sector development boards. The recommendations focus on procedures and methods that are relevant for all sectors … for instance, we provide a template for the formulation of a business plan or the development of a sector strategy. These standards make the work of sector development boards easier and more efficient. We saw, for example, that several managers had difficulties in writing business plans. Our [corporate] template enables them to easily develop a professional business plan. Another example is the training of account managers. Sales training is a major success factor for the OneEC approach. Account managers have to be trained for selling solutions. The selling approach is different from the sale of products. It requires consulting skills. By highly recommending a training curriculum that builds these skills, we improve sector performance … Standards across sector development boards are also helpful when managers work in several sectors, which is common. If standards exist, these managers do not have to adjust to new formats and work procedures all the time." (S4: 6)*

(3) Third, operating rules may improve the social relationships between the collaborating businesses. They may prevent distrust breeding process conflict (Jehn 1997; Wall & Callister 1995) and may support the formation of a cross-business community:

> *"Standardization helps to create a community. You should not underestimate the power of similarity. The fact that people share the same rules and work in a similar way creates familiarity, which improves and facilitates the formation of a community." (S4: 6)*

(4) Finally, operational rules may exert behavioral control. In behavioral control, specific rules and procedures are articulated, which, if followed, will lead to desired outcomes (e.g., Ouchi 1979, 1980; Kirsch 1997). Rules such as transfer-pricing standards and project guidelines control the behavior of managers in cross-business collaboration and may thus support the implementation of growth synergy initiatives.

(2) Joint information systems

Joint information systems refer to common cross-business databases, electronic media, information systems, and storage systems.

> *We observed several information systems at ElectroCorp that were installed by corporate management to facilitate integration. The most prominent one was an account management portal that hosts account information across businesses including cross-selling opportunities and rich customer data. Further information systems were intranet portals for sharing best practices, a joint product lifecycle management system[132], and a solution database to support the development of repeatable*

[132] The **product lifecycle management system** at ElectroCorp is an information system that supports the workflow in all phases of the product lifecycle process (including context, activities, responsibilities, and metrics). The product lifecycle process comprises lifecycle planning, product portfolio management, product de-

solutions from ElectroCorp's vast array of products and technologies.[133]

Why did joint information systems contribute to the continuous realization of growth synergies? Our data suggests two reasons:

(1) First, joint information systems may improve the efficiency and effectiveness of cross-business collaboration in several ways: First, information systems facilitate cross-business knowledge exchange (cf. Brown & Magill 1998; Hansen 2002; Tanriverdi 2005) and provide managers with additional information processing capacity (e.g., Galbraith 1973; Galbraith & Katzanjian 1986; Daft 2007). Information systems supply managers with data required for making strategic and operational decisions in a timely manner. Different managers across businesses can simultaneously enter and extract data from joint information systems. As discussed previously, this is especially relevant for growth synergies that depend on making fast decisions on emerging market opportunities. Second, information systems can reduce the complexity of cross-business collaboration. A joint database concentrates data from different businesses and across different points in time and thus reduces the number of cross-business relationships that have to be handled. For instance, without a joint information system, a key account manager that receives eight cross-selling opportunities from different businesses would have to form eight separate relationships. With a joint information system, these eight relationships collapse into one between the key account manager and the database. Third, the data input and output schemas of joint information systems can structure and automate the workflow of synergy realization (cf. Broadbent et al. 1999; Krallmann et al. 2002), which may further support managers in their effort to collaborate across businesses. For instance, a business-level manager that enters account information into the system does not necessarily need to know whether this information is relevant for a key account and what to do next. The system may use indicators such as customer characteristics, order size, industry affiliation, and processing rules to classify and deliver the information automatically. All three facts – higher information processing capacity, lower complexity, and workflow structure – enable motivated managers to collaborate across businesses efficiently.

> *At ElectroCorp, managers repeatedly emphasized information systems as important enablers of synergy realization, for instance: "IT systems that support cross-business efforts are essential for the success of OneEC. For example, account managers need to have a system that provides data on cross-selling opportunities. Without such information, even the most motivated account managers cannot work effectively. You just cannot handle the complexity without IT support." (S7)*

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sign/development/testing, development of the marketing/production concept, continuous product improvement, product portfolio optimization, and product termination.

[133] Please refer to chapter 8 for in-depth descriptions of joint information systems.

(2) Second, joint information systems may exert behavioral control for synergy realization. The previously discussed standardized input and output schemas do not only support the workflow of cross-business collaboration. They implicitly establish procedures for cross-business collaboration. Like explicit operational rules, these procedures may exert behavioral control (cf. Ouchi 1979; Kirsch 1997), which can contribute to the continuous realization of growth synergies.

> *Corporate managers at ElectroCorp were aware of the control aspect of joint information systems. They viewed information systems not only as an enabler of efficient cross-business collaboration but also as a governance mechanism for the realization of growth synergies: "We use our IT systems for the governance of OneEC … We try to improve the development of integrated solutions through our PLM system [product lifecycle management system]. Through adjustments in the product portfolio component, we try to stimulate the development of cross-business solutions." (S4: 7)*

(3) Socio-cultural mechanisms

A final type of integration mechanism that ElectroCorp's managers employed was socio-cultural mechanisms. We define socio-cultural mechanisms as managerial activities and informal socialization mechanisms targeted at establishing a collaborative mindset. Socio-cultural mechanisms may involve vertical interactions between corporate and business managers as well as horizontal interactions between managers of different businesses.

ElectroCorp's managers regarded socio-cultural mechanisms (which they referred to as 'organizational software') as a major success factor of the continuous realization of growth synergies:

> *"Successful realization of synergies depends to 50% on the right hardware and to 50% on the right software. One of our major lessons learned [during the implementation of the OneEC initiative] is that successful cross-business collaboration requires a mindset change. Regardless of their business affiliation, people need to have the feeling that they are part of a larger whole. Collaboration needs to occur to them as a natural behavior, not something they have to do … At the beginning [of synergy realization], we underestimated the importance of these soft issues. But they turned out to be really important." (S6: 2) Or, expressed slightly different: "A major aspect of OneEC is changing the minds of the people. Acting as 'OneElectroCorp' needs to become business as usual, the normal way to do business at ElectroCorp. Without a mindset change we cannot achieve this." (S4: 3)*

Corporate managers employed several socio-cultural mechanisms for the realization of growth synergies:

> *First, they included 'collaboration' and 'boundaryless customer focus' in the official* ***corporate value statement****. Second, they started a relentless* ***communication campaign*** *for the OneEC initiative on multiple levels of the firm stating the goals and strategic rational for realizing growth synergies. The campaign used several communication channels including strategy meetings, company talks, town hall meetings, trainings, web casts, and employee newspapers. The executive management team and especially the* CEO were heavily involved *and demonstrated their commitment during several formal and informal occasions. Third, corporate managers coined a* ***common language*** *for realizing growth synergies. Key terms were developed, defined, explained, and related to existing company language. Fourth, a* ***distinctive graphic design*** *was established. This included a OneEC logo and a recognizable presentation. Moreover, corporate managers built a* ***OneEC community*** *for the business and regional managers that were directly involved in the realization of growth synergies. They created a dedicated OneEC website on the intranet which provided news regarding the overall initiative, best practices, success examples, market and competitor information, guidelines, self assessment tools, and training manuals. Furthermore, they arranged regular meetings for sector managers, corporate account managers, and OneEC country managers. Once a year the community convened at a formal OneEC conference where new collaboration approaches and success stories were presented and achievements were celebrated. Finally,* ***training programs*** *were introduced that educated managers in cross-business collaboration and the realization of growth synergies. For instance, corporate account managers were trained in lateral leadership, team-based selling, and consulting approaches.*[134]

Why did socio-cultural mechanisms contribute to the continuous realization of growth synergies?

Our data suggests that socio-cultural mechanisms tilt the shared values and norms of the firm, i.e. the corporate culture, towards collaboration. We observed that over time a community feeling informed by shared identity and shared values emerged among ElectroCorp's managers, who were involved in synergy realization.

Such a collaborative corporate culture has several positive effects for the continuous realization of growth synergies: First, as it controls the behavior of organizational members (Ouchi 1979; Cook & Yanow 1993), it can increase their willingness to collaborate across businesses. Second, it can provide a common point of reference that smoothes interactions and eases mutual adjustment between members of different businesses (Jones 1983a/b). Third, by generating organizational identification, a collaborative corporate culture may increase the commitment of individual members to

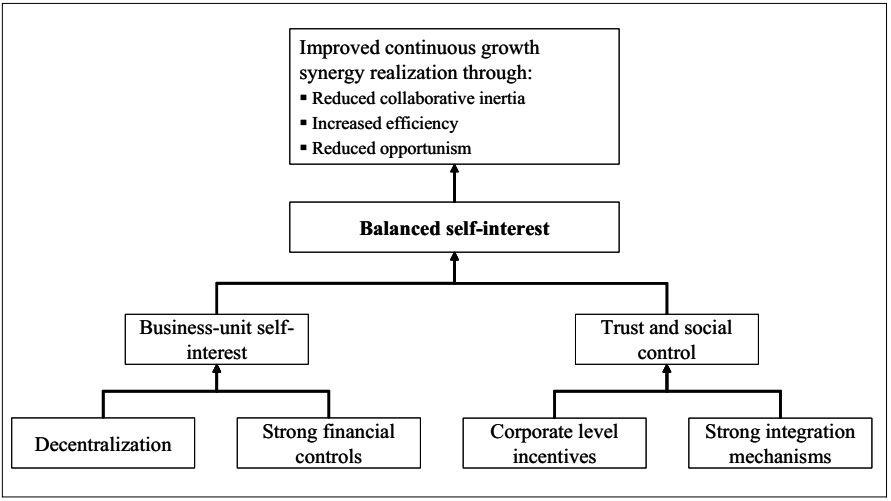
[134] Please refer to chapter 8 for in-depth descriptions of these mechanisms.

cross-business collaboration (cf. Albert & Whetten 1985; O'Reilly & Chatman 1986; Dutton & Dukerich 1991, 1994; Becker 1992; Elsbach & Kramer 1996). Fourth, it may reinforce the new expectations created by the role relationships of secondary structures. The alignment between structural and cultural characteristics for collaboration sends a consistent message to employees, which can be motivating. Finally, a collaborative culture may balance the strong self-interest that decentralization and the strong financial controls generate. In a collaborative culture, businesses may help each other in the realization of growth synergies even if they do not benefit equally (cf. Barnard 1938; O'Reily & Chatman 1986; Ghoshal & Bartlett 1994; Galunic & Eisenhardt 2001). In other words, the cross-business relationships in a collaborative culture may follow the principles of 'neighborly help'.

9.2.5 Complementarity of organization design elements

Our observations suggest that the previously discussed organization design elements are complementary (cf. Milgrom & Roberts 1992; Roberts 2004). Only in concert (i.e. as a system) do decentralization, strong financial controls, corporate-level rewards, and strong integration mechanisms facilitate an organization design that leverages the *full* benefits of decentralized collaboration for continuous growth synergy realization. In other words: The simultaneous existence of all organization design elements may lead to higher levels of continuous growth synergy realization than the existence of any single component in isolation. Figure 9-12 illustrates this system effect:

Figure 9-12: System effect of complementary organization design elements



Source: author

Decentralization and strong financial controls stimulate productive *business unit self-interest* (e.g., Eisenhardt & Galunic 2000; Martin 2002). Our observations suggest that this self-interest motivates businesses to overcome collaborative inertia and actively seek growth synergy opportunities. Furthermore, self-interest seems to ensure that businesses do not abuse their autonomy to pursue growth synergy initiatives of low quality that destroy corporate value (dis-synergies). Self-interest leads businesses to participate in growth synergy initiatives only when the value-creating opportunity justifies the reallocation of resources from other existing projects within the business unit to the cross-business initiative. Strong integration mechanisms together with corporate-level incentives foster trust and a collaborative corporate culture that exerts social control (cf. Hitt et al. 1992; Jones 2007). Our observations suggest that *trust and social control* balance business unit self-interest and thus help to prevent 'destructive self-interest' that hinders collaboration through breeding distrust or reducing the investment in common-pool resources (e.g., resources such as sector development boards or common components of cross-business solutions). Specifically, a collaborative culture may establish a work ethic that encourages businesses to collaborate "*for the good of the organization*" more than economic or political rewards would justify (cf. Barnard 1938: 200, from Ghoshal & Bartlett 1994).

Thus, in conjunction, decentralization, strong financial controls, corporate-level incentives, and strong integration mechanisms may establish a modus operandi of balanced self-interest that contributes to growth synergy realization through lowering collaborative inertia, reducing business unit opportunism, and increasing efficiency. At ElectroCorp, we could observe this modus operandi:

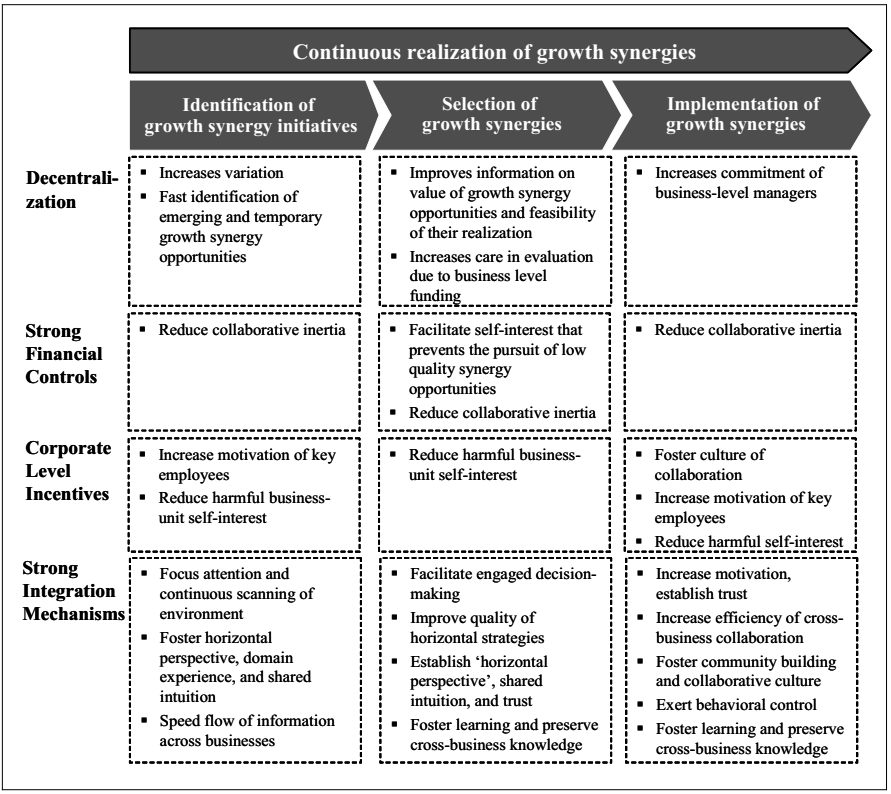
> *At ElectroCorp, businesses primarily collaborate in sector development boards because it helps their businesses: "In the sector approach, businesses collaborate because they can increase their individual revenues and profits." (s3: 1) The business unit heads in the sales board allocate funds based on the profit and growth expectations for their individual businesses. However, despite this strong self-interest, we did not observe any business that was reluctant to make the necessary asset-specific investments or was free-riding on common pool resources. Occasionally, businesses even helped each other out if benefits were distributed asymmetrically. As a corporate manager confirms: "… Yes, I have observed that businesses help each other out like good neighbors do even if they do not benefit equally … I have the impression that the continuous collaboration in the sectors helps to establish this collaborative climate …The fact that the same businesses collaborate together in several sectors is also likely to be supportive." (S4: 7)*

9.2.6 Summary and Propositions

Our results suggest that an organization design based on decentralized collaboration is a key success factor for the continuous realization of growth synergies. In such a design, businesses permanently collaborate in secondary work-structures that facilitate and govern the ongoing identification, selection, and implementation of temporary growth synergy initiatives. Specifically, a design of decentralized collaboration consists of decentralized decision-making, strong business-specific financial controls, corporate-level incentives, and strong integration mechanisms.

Figure 9-13 summarizes the contribution of the individual organization design elements to continuous growth synergy realization.

Figure 9-13: Impact of design of decentralized collaboration on continuous growth synergy realization



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While the design components of decentralized collaboration have independent effects on the identification, selection, and implementation of growth synergy initiatives (as summarized in the previous figure), our observations suggest that they also seem to have a joint systems effect. Decentralization, strong financial controls, corporate-level incentives, and strong integration mechanisms are complementary and work together as a system of decentralized collaboration to facilitate balanced self-interest, which improves continuous growth synergy realization through increasing efficiency and reducing opportunism.

These findings inform research in organization theory in two ways:

(1) First, these findings have an interesting comparison to what strategy-structure research (e.g., Hill et al. 1992) and research on resource combinations in dynamic markets (e.g., Martin 2002; Martin & Eisenhardt 2005) would predict as consistent organization designs for cross-business synergy realization in related diversified MBFs. The observations in our study suggest an organization design that neither strategy-structure research nor research on resource combinations would predict or accept as being consistent. The design our study suggests combines cooperative organizational elements suggested by strategy-structure literature (corporate-level incentives and strong integration mechanisms) and competitive organizational elements implicated by resource combination literature (decentralization and strong business-specific financial controls). A reason why this is the case may be that the continuous realization of growth synergies requires designs for *stable yet flexible* cross-business collaborations which are not within the focus of these literatures:

Strategy-structure literature focuses on stable collaborations and advocates designs that limit business unit opportunism to achieve benefits from static resource sharing (mechanistic structures). Resource combination literature focuses on flexible temporary cross-business collaborations and advocates designs that emphasize flexibility and business unit self-interest to derive benefits from resource (re)combination in dynamic markets (organic structures). The observations in this study suggest that the continuous realization of growth synergies requires an intermediate position between these two extremes. *Continuous* synergy realization requires designs for stable collaboration that facilitate trust, limit opportunism, reduce transaction costs, and economize attention. The realization of *growth synergies*, however, requires a certain extent of business unit self-interest and flexibility to constantly exploit market opportunities through temporary growth synergy initiatives that (re)combine resources. Specifically, our results suggest that a design of decentralized collaboration that facilitates and balances business unit self-interest through high levels of decentralization, strong business-specific financial controls, corporate-level incentive schemes and strong integration mechanisms may provide the required balance between stability and flexibility for the continuous realization of growth synergies.

(2) Second, the observations in this study also suggest that secondary work-structures may play a key role for balancing stability and flexibility for the continuous exploitation of growth synergy opportunities. In governing the ongoing identification, selection, and implementation of growth synergy initiatives, these cross-business boards appear to combine the benefits of centralization (i.e. stability to increase efficiency) with those of decentralization (i.e. flexibility to capture growth synergy opportunities). They thus appear to be a new form of governance in MBFs that focuses on the horizontal relationships between the businesses of the firm and is just emerging in the literature (e.g., Martin 2002; Martin & Eisenhardt 2005).

The following propositions summarize the key findings of this section:

Proposition 2 (organization design): A design of decentralized collaboration is positively related to the continuous realization of growth synergies. The following propositions elaborate the elements of such a design:

- **Proposition 2a (decentralization):** Decentralized management and funding of growth synergy activities, which include business unit autonomy regarding the identification, selection, and implementation of growth synergy initiatives, is positively related to continuous growth synergy realization.
- **Proposition 2b (strong financial controls):** Corporate center use of strong business-specific financial controls when evaluating business unit performance is positively related to continuous growth synergy realization.
- **Proposition 2c (corporate-level incentives):** Corporate-level incentive schemes are positively related to continuous growth synergy realization.
- **Proposition 2d (strong integration mechanisms):** Strong integration mechanisms that consist of secondary work-structures *and* joint information systems *and* socio-cultural mechanisms are positively related to continuous growth synergy realization.

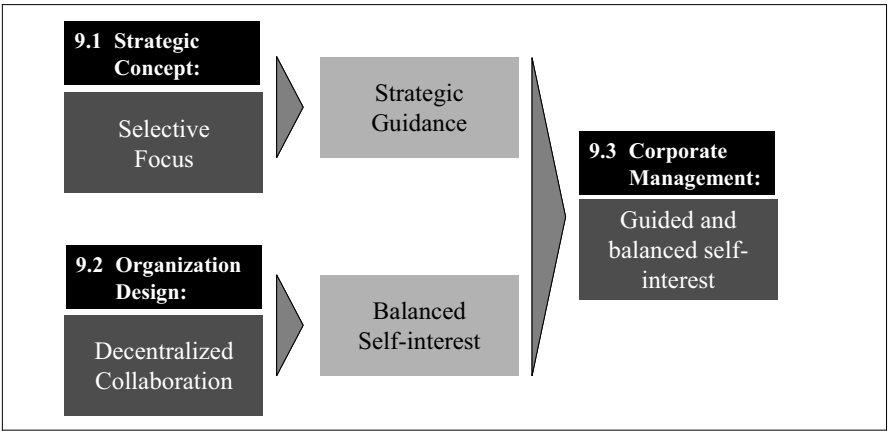
While these elements have independent effects on the continuous realization of growth synergies, they are complementary, i.e. mutually enforcing. Only in conjunction do they facilitate a consistent organization design of decentralized collaboration:

- **Proposition 2e (complementarity of organization design elements):** The simultaneous existence of decentralization, strong financial controls, corporate-level incentives, and strong integration mechanisms within the firm leads to higher levels of continuous growth synergy realization than the existence of any single component in isolation (system effect).

9.3 Corporate Management: Guided and balanced self-interest

In this section, we integrate our two major constructs for the successful and continuous realization of growth synergies – selective focus and decentralized organization – into a super-ordinate core category. This category emerged from our data as a specific corporate management model for the realization of growth synergies. We term this corporate management approach 'guided and balanced self-interest' (see figure 9-14).

Figure 9-14: Integration of constructs into the core category corporate management



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We proceed as follows: First, we explain the corporate management approach of guided and balanced self-interest (9.3.1). Then, we describe the role of the corporate center in this approach (9.3.2). Subsequently, we discuss why guided self-interest may contribute to continuous growth synergy realization (9.3.3). We close the chapter with a summary and propositions (9.3.4).

9.3.1 The approach of guided and balanced self-interest

In this section, we explain the corporate management approach of guided and balanced self-interest. We first describe the model of guided and balanced self-interest and then show how it works as an ecological system for the evolutionary realization of growth synergies.

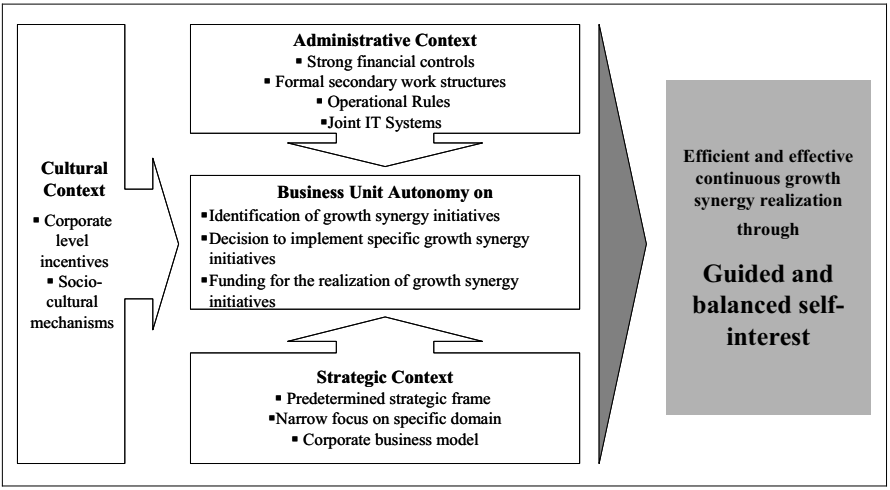
(1) The model of guided and balanced self-interest

The model of guided and balanced self-interest combines the strategic concept of selective focus with the organization design of decentralized collaboration into a coherent corporate management approach.

In the model of guided and balanced self-interest, the businesses are principally autonomous in their realization of growth synergies. Within specific strategic boundaries that ***guide*** synergy realization and are determined by the goals of the firm, the businesses are free to initiate growth synergy initiatives or not. Through strong business-specific financial controls, the businesses are encouraged to follow their ***self-interest*** in the realization of growth synergies. This 'productive self-interest' motivates businesses to overcome collaborative inertia and actively seek growth synergy opportunities. Furthermore, it helps to ensure that businesses do not abuse their autonomy to pursue growth synergies of low quality that destroy corporate value (dis-synergies). To make sure that the self-interest does not become too strong and turn into 'destructive self-interest' that hinders cross-business collaboration by breeding distrust or reducing the investments in common pool resources, it is ***balanced*** through a collaborative culture that facilitates trust and exerts social control, which reduces opportunistic behavior of businesses. The system of guided and balanced self-interest thus enables an efficient and effective realization of growth synergies that is consistent with the corporate strategy of the firm. Once established, it functions as a self-regulating system for continuous growth synergy realization.

The system evolves through a corporate context that corporate management establishes. The corporate context consists of *some* of the previously discussed strategic and organizational elements that lead to a selective focus and decentralized collaboration. The corporate context has a strategic, structural, and cultural component (figure 9-15).

Figure 9-15: Corporate context that guides and balances self-interest



Source: author

The strategic frame, the narrow scope and the corporate business model shape the strategic *context*. Strong financial controls, the formal secondary work-structures, the operational rules, and the joint IT systems set the *administrative context*. Finally, corporate-level incentives and socio-cultural integration mechanisms shape the *cultural context*. In the following, we describe the role and function of each of these contexts in the efficient and effective realization of growth synergies.

(a) Primary role and function of the strategic context in continuous growth synergy realization

In our model, the strategic context guides the businesses in the realization of growth synergies. It reflects the preferred future position of the firm as articulated by corporate management and provides strategic intent (cf. Prahald & Doz 1987). In presenting the objective function of the firm and providing businesses 'something to aim for' (cf. Lovas & Ghoshal 2000), the strategic context provides direction for the continuous realization of growth synergies.

The *strategic frame* provides orientation by focusing continuous growth synergy realization on a central strategic theme linked to corporate advantage and clearly defined norm strategies. The *narrow scope* further specifies the direction given by the strategic frame by focusing growth synergy realization on specific cross-business domains. These domains represent formal cross-business charters for growth synergy realization that corporate management allocates to the businesses. A charter represents the product and market arenas in which a division actively participates and for which it is responsible within the corporation (Galunic & Eisenhardt 1996: 256). Charters create implicit contracts for the boundaries of synergy realization between the businesses and corporate management and thus facilitate strong strategic guidance (cf. Galunic & Eisenhardt 1996, 2001). Finally, the *corporate business model* provides guidance by aligning the overall development path of the businesses with the continuous realization of growth synergies (cf. Müller-Stewens 2005).

Together, strategic frame, narrow scope, and corporate business model shape the strategic context that guides business-level managers in their realization of growth synergies. Furthermore, the strategic context helps to assure that the realization of growth synergies is consistent with the corporate strategy of the firm (cf. Lovas & Ghoshal 2000).

(b) Primary role and function of the administrative context in continuous growth synergy realization

In our model, the administrative context has two roles. First, through *strong financial controls*, it stimulates productive business unit self-interest (cf. Eisenhardt & Galunic 2000; Martin 2002) that fosters self-interest of businesses in the realization of growth synergies. The self-interest motivates businesses to overcome collaborative inertia and

actively seek growth synergy opportunities. It helps to make sure that businesses do not abuse their autonomy and waste corporate resources by pursuing value-destroying synergy initiatives (dissynergies): Businesses participate in growth synergy initiatives only when the value-creating opportunity justifies the reallocation of resources from other existing projects within the business unit to the cross-business initiative.

Second, the administrative context enables efficient collaboration across businesses by establishing strong integration mechanisms that cut across the primary structure of the firm and tightly couple the businesses. *Formal secondary work-structures* establish trust, generate social capital, motivate, reduce transaction costs, economize attention, improve cross-business decisions, enable quick responses to emerging opportunities, preserve cross-business knowledge, and facilitate the build-up of domain experience. *Operational rules* reduce the need for coordination and lower conflict. *Joint information systems* provide information-processing capacity and reduce the complexity of collaboration.

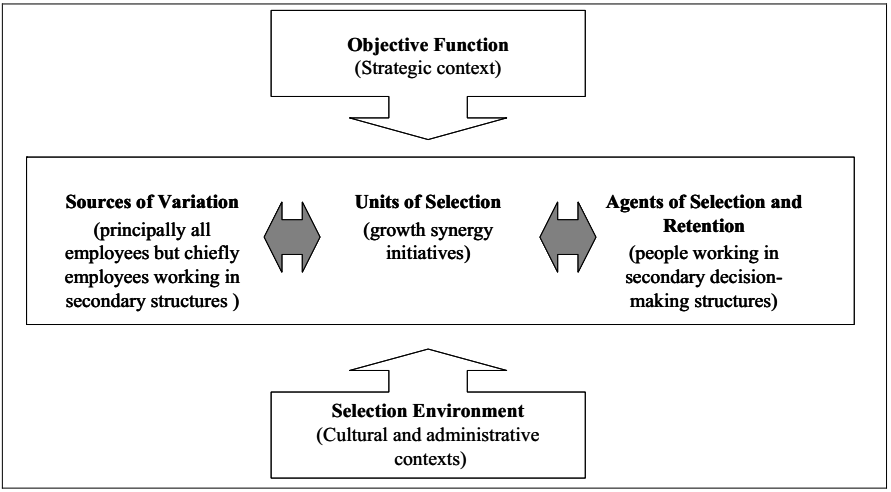
(c) Primary role and function of the cultural context in synergy realization

In our model, the cultural context, which is shaped by *corporate-level incentives* and *socio-cultural mechanisms*, facilitates the establishment of a collaborative corporate culture. A collaborative corporate culture has two effects. First, it increases the motivation and commitment to growth synergy realization by shaping a strong corporate identity, establishing trust, providing a common point of reference and exerting behavioral control. Second, it provides a social counterbalance for the strong economic self-interest of businesses in growth synergy realization. This social counterbalance helps to ensure that overwhelming business unit self-interest does not turn into 'destructive self-interest' that hinders cross-business collaboration by breeding distrust and reducing the investment in common-pool resources. Specifically, a collaborative culture may establish a work ethic that encourages businesses to collaborate "for the good of the organization" more than economic rewards would justify (cf. Barnard 1983).

(2) Guided and balanced self-interest as ecological system for the realization of growth synergies

Overall, the corporate management model of balanced and guided self-interest works as an ecological system for the evolutionary realization of growth synergies (see figure 9-16 on the next page). The model is similar to Lovas & Ghoshal's (2000) approach of 'strategy as guided evolution'.

Figure 9-16: Growth synergy realization as guided evolution



Source: Based on Lovas & Ghoshal (2000)

The selective system works on growth synergy initiatives, which are the *units of selection* in our model. The *objective function* in the model is defined by the strategic context.[135] As such, it reflects top management preferences for the future direction of the firm in continuous growth synergy realization and provides guidance. The *selection environment* inside the firm is created by the cultural and the administrative context. It enables and guides the realization of growth synergies without active command and control from the corporate center. The *sources of variation* in the realization process in principle include everyone who can identify and submit growth synergy initiatives. While all employees can be sources of variation, most variation is likely to come from the employees working in the secondary structures, as they are 'close to the action'. The *agents of selection and retention* are the members of the secondary decision-making structures, who decide on the formation and termination of growth synergy initiatives.

The ecological system of growth synergy realization at ElectroCorp works as follows:

> *The long-term focus on providing end-to-end customer solutions through lead-sharing, bundling, and integration for key customers in designated sectors sets the* ***objective function*** *for continuous growth synergy realization at ElectroCorp. The strong financial controls that the corporate center uses to evaluate business unit performance, the corporate-level incentive schemes, and the strong integration mecha-*

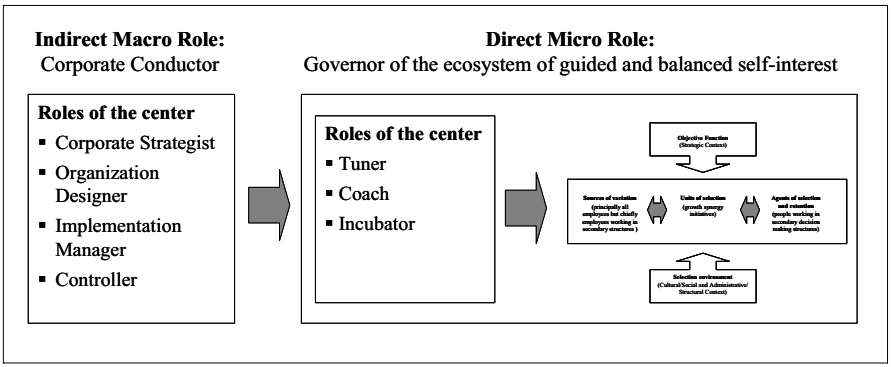
[135] Please note that the strategic context that guides selection in our model is more elaborate than the objective function in Lovas & Ghoshal's (2000) original model of strategy as guided evolution.

*nisms shape the **selection environment** (balanced self-interest). The **sources of variation** are principally all employees. Managers on all levels can make suggestions for growth synergy initiatives. However, due to their dedicated focus on growth synergies, most variation originates from members of the sector organization. The members of the sales board (business level) and the members of the sector development boards (division level) are the **agents of selection and retention**. They decide on the formation, implementation, and termination of growth synergy initiatives. Whereas the sales board primarily allocates resources to the sectors, the sector development boards select and retain growth synergy initiatives.*

9.3.2 The role of the corporate center in guided and balanced self-interest

What is the role of the corporate center in the evolutionary approach of guided and balanced self-interest? We observed that the corporate center[136] has two different roles in the realization of growth synergies (figure 9-17): First, it has the role of the *corporate conductor outside the ecosystem* (macro role). In this role, it influences the continuous realization of growth synergies indirectly by setting the corporate context that facilitates guided and balanced self-interest. Second, the corporate center has the role of the *governor within the ecosystem* (micro role). In this role, it influences the continuous realization of growth synergies more directly by modifying specific system elements and actively interacting with the businesses. We will first discuss and illustrate the micro role and then the macro role of the corporate center.

Figure 9-17: Roles of the corporate center in guided and balanced self-interest



Source: author

[136] Please note that we use the terms *corporate center* and *corporate management* interchangeably throughout this dissertation.

(1) Micro Role – Corporate center as governor of the ecosystem of guided and balanced self-interest

In the model of guided and balanced self-interest, the corporate center is not involved in the actual realization of specific growth synergies. It does not identify, select, or implement growth synergy initiatives. Furthermore, it does not control their implementation. However, our data suggests that it nevertheless plays an important active role within the ecosystem for the evolutionary realization of growth synergies. We observed that the corporate center assumes the role of a governor of the ecosystem. Specifically, the corporate center (a) fine-tunes the corporate context, (b) coaches the businesses, and (c) temporarily incubates growth synergy opportunities.

To administer its governance role, the corporate center receives feedback from the organization through several governance channels such as surveys and formal or informal meetings.

> *At ElectroCorp, corporate managers tapped into several formal and informal governance channels to receive feedback on the realization of growth synergies. First, they participated in sales board and sector development board meetings. Second, they were involved in best-practice meetings among sector managers and corporate account managers. Third, they initiated and participated in the annual OneEC conference and in several other cross-business events. Fourth, they came in touch with the organization through talks, presentations, and trainings. Finally, they received feedback in the annual strategic planning process.*

(a) Corporate center as fine-tuner of the corporate context

As a 'fine-tuner' of the system of guided and balanced self-interest, corporate managers make incremental adjustments to the corporate context to improve variation, selection and retention of growth synergy initiatives. Such adjustments may include a clarification of the objective function, improvements of joint IT systems, addition of new operative rules, or the recommendation of new standards. In its role as a tuner, the corporate center leverages its system overview.

> *At ElectroCorp, corporate managers continuously fine-tuned joint information systems and added new rules. They also terminated organizational elements that did not have the desired effect on synergy realization, for instance, they quashed initially introduced cross-business targets and more elaborate corporate-level incentive schemes for the sector organization.*

(b) Corporate center as coach of the businesses

As a 'coach', corporate managers support the businesses in the realization of growth synergies. Coaching may involve several value-adding activities for which the corpo-

rate center has specialist experience. For instance, corporate managers may support cross-business teams in the formulation of business plans and horizontal strategies. They may also provide businesses with tools, templates, and training sessions for efficient cross-business collaboration.

> *At ElectroCorp, the corporate center performed several coaching activities. Corporate managers coached sector development boards in their start-up phase. They also provided best practice guides and checklists for sector operations and moderated cross-business meetings. Furthermore, corporate managers tutored regional companies on their role within the sector approach. During intense two-day workshops in the regions, they explained the concept, advised on the identification of growth synergies, and recommended specific organizational designs. Additionally, corporate managers facilitated ongoing best practice exchanges among sector managers, regional managers, and corporate account managers. Finally, they maintained and promoted the global OneEC community to foster the emergence of an informal network between the key players involved in the realization of growth synergies.*

(c) Corporate center as incubator

As 'incubator', the corporate center hatches valuable growth synergy opportunities that guided self-interest fails to capture. If businesses are not willing to take ownership of identified cross-business opportunities with significant business potential, the corporate center may nurture these opportunities as an exception to the rule.

When does self-interest fail to realize cross-business opportunities? While there may be several reasons for the reluctance of businesses to take ownership in cross-business opportunities, we observed three specific reasons at ElectroCorp: The first reason is a *difference in perception* by corporate and business managers. Businesses may not see the potential or may not share the opportunity appraisal of corporate managers. The second reason is *risk aversion* of businesses. Businesses agree with corporate managers regarding the cross-business opportunity. However, they are not willing to assume the investment risk. The third reason is what we term *collaborative inertia*. Surprisingly, if several businesses profit from a joint opportunity but no business has a dominant interest and leads the way, this seems to be an inhibitor of guided self-interest. Thus, the absence of an impulse to collaborate from one of their peers seems to prevent businesses from assuming cross-business ownership.

Under these conditions, the corporate center may temporarily incubate the cross-business opportunity. As an incubator, the corporate center centrally fosters the exploration of the opportunity and funds the associated activities. In doing so, it does not assume any operative responsibilities but acts as a *service center* without any formal authority for a group of businesses. These service centers usually develop and coordinate concepts for cross-business offerings and engage in central marketing and sales

activities. Once concrete sales opportunities arise, they are passed on to the respective businesses. Thus, service centers operate quite similarly to secondary work-structures. However, they differ in three ways: First, they do not have any formal decision-making power. Second, they are staffed with corporate-level managers. Third, they report to corporate and not to the businesses.

The incubation of cross-business opportunities is temporary. After a defined period, usually no more than three years, the central service structures are either transformed into decentralized secondary work-structures under business-level governance (staffed with business-level managers and reporting to businesses, i.e. the sales board) or are terminated. After this incubation period, the 'start-up risk' has been mitigated and proof of profitability has been provided. Furthermore, ongoing business has been established, which should eliminate 'collaborative inertia'. Thus, the businesses should now be able to pursue the cross-business activities more efficiently than the corporate center.

> *At the time of our observation, ElectroCorp's corporate center incubated two cross-business opportunities: One for the exploitation of growth synergies associated with recurring big events such as the Olympic Games and another for exploiting telematic opportunities. In both cases, businesses did not want to assume responsibility, which led the corporate center – or more specifically, the OneEC department – to step in: "We did not find a home for 'big events' and 'telematics', so we decided to incubate these opportunities for a limited period of time." (S4: 6) For this purpose, two separate corporate service centers were established, which ElectroCorp's managers termed 'business competence centers (BCC)'. Managers made clear that BCCs are an exception to the rule and do not dilute the otherwise decentralized approach: "Business competence centers are a temporary appendix of the pure-play sector approach. They really are an exception to the rule for special situations." (S5: 3) BCCs provided central services for groups of businesses. For example, the BCC Big Events hunted for project opportunities for the Olympic Games coming up in China 2008 and passed them on to the businesses. Central project hunting included timely lobbying and marketing and the preparation of bids.*

(2) Macro Role – Corporate center as corporate conductor

In addition to its micro-role within the system of guided and balanced self-interest, our data suggests that the corporate center has an important macro role in the realization of growth synergies. We observed that the corporate center assumes the role of the 'corporate conductor', in which it sets the corporate context and thus creates the ecosystem of guided and balanced self-interest. Specifically, the corporate center acts as a (a) corporate strategist, (b) corporate designer, (c) implementation manager, and (d) controller of the businesses.

(a) Corporate center as corporate strategist

As 'corporate strategists', corporate managers influence the realization of growth synergies by determining the guiding strategic context of the firm and deciding on the configuration of the business portfolio.

Corporate managers set the strategic context by engaging in several complementary activities that eventually lead to a strategic concept of selective focus. First, they determine the overall long-term goals of the firm, which essentially constitute the strategic frame. Second, they decide on the cross-business domains that determine the scope for synergy realization within the firm.[137] Third, they develop the corporate business model that influences the overarching roles and responsibilities of businesses in the continuous realization of growth synergies.

> *At ElectroCorp, the corporate executive committee and especially the CEO decided to intensify the focus on growth synergies. Due to a changing environment (changing competition and customer requirements, saturated markets, and financial market pressures), they included the realization of growth synergies as a distinct issue within the corporate strategy agenda. This prioritization eventually led to the development of the strategic frame, which emerged from a major corporate initiative (customer focus program). Employing the strategic frame, corporate managers of the OneEC department analyzed ElectroCorp's overall market and narrowed the focus on specific cross-business domains (sector-customer clusters) that were attractive for ElectroCorp and fit with the overall corporate strategy. Over time, the OneEC department together with the corporate executive committee developed a corporate business model that clarified the overarching roles and responsibilities of businesses within the realization of growth synergies. Throughout their strategizing, corporate managers made sure that their efforts were consistent and fostered their overall goal, the continuous realization of growth synergies.*

Furthermore, corporate managers determine the *configuration of the business portfolio*. In deciding which businesses to acquire or divest, they determine the potential for growth synergies. Only related businesses that are consistent with an overarching business model will maximize the potential for growth synergies.

> *At ElectroCorp, corporate managers aligned the configuration of the businesses with the realization of growth synergies. For example, corporate managers drove the acquisition of several industrial IT firms to foster the development of integrated cross-business solutions.*

[137] By selecting cross-business domains with valuable present and future potential for growth synergy realization, the corporate managers act as *corporate entrepreneurs* (cf. Eisenhardt & Galunic 2001). They recognize new corporate product-market opportunities early on and then drive the process to implement them within the corporation.

(b) Corporate center as organization designer

As 'organization designers', corporate managers influence the realization of growth synergies by determining the administrative and cultural context of the firm.[138] Corporate managers establish the control mode of the businesses. They determine the corporate-level incentives of key managers. Furthermore, they establish the corporate structures and systems of the firm, formulate operational rules, and determine the norms and values of the firm. However, corporate managers do not just configure the individual elements of the organization design. They make sure that they work together as a consistent system for the realization of growth synergies (e.g., a system of decentralized collaboration that facilitates balanced self-interest).

> *At ElectroCorp, corporate managers developed the organization design for the realization of growth synergies. Based on the experience from prior initiatives and an in-depth analysis that was supported by members of the corporate consulting unit, corporate managers developed an organization blueprint that guided the alignment of controls, rewards, structures, systems and corporate values. The organization blueprint contained detailed information on each of the design elements and outlined how they work together to facilitate growth synergies. For instance, it described and substantiated the specific roles and responsibilities of the secondary work-structures and specified their reporting relationships.*

(c) Corporate center as implementation manager

As 'implementation managers', corporate managers govern and manage the alignment of the corporate context for guided and balanced self-interest. This may include the formation, organization, staffing and steering of dedicated corporate alignment programs. Furthermore, it can involve corporate communication campaigns and change management.

> *Once growth synergies were a corporate agenda issue at ElectroCorp, corporate executives initiated the corporate alignment program (corporate OneEC initiative) and a dedicated corporate department for the management of this alignment (OneEC department). The initiative involved the formulation of a strategic concept, the development of an organization design, and the actual execution of concept and design within the organization. The execution involved intense change management and communication at multiple levels of the organization by corporate managers.*

[138] Note that this does not mean that the corporate center designs the administrative and cultural context without the involvement of the businesses. It may well be that the corporate center creates task forces and/or councils that are led by corporate managers but do involve members of the businesses.

(d) Corporate center as controller

As 'controllers', corporate managers enforce strong financial control of the businesses, which is necessary to establish self-interest. Specifically, they establish financial targets in the strategy process, conduct performance reviews, and draw consequences.

> *At ElectroCorp, corporate managers establish binding financial target agreements with the heads of the businesses during the annual strategy process. Corporate executives monitor these targets regularly and draw consequences if they are not achieved. Consequences vary in strength but may ultimately lead to personal consequences (e.g., replacement of business-level managers).*

9.3.3 Evaluation of corporate management approach

Why did an evolutionary corporate management approach of guided and balanced self-interest contribute to the continuous realization of growth synergies at ElectroCorp? Our observations suggest the following reasons:

(1) One reason may be that such an approach optimally leverages complementary knowledge and competencies of corporate-level and business-level managers in growth synergy realization (cf. Nonaka 1988). Research suggests that *corporate-level managers* usually employ a long-term strategic perspective and have the best overview of the corporate domain (e.g., Chandler 1962, 1991; Ansoff 1965; Andrews 1987; Goold et al. 1994; Freeland 1996; Ocasio 1997; Bowman & Helfat 2001; Galunic & Eisenhardt 2001; Grant 2005a). This may enable them to think creatively about new business opportunities, to pinpoint the most profitable cross-business domains for continuous growth synergy realization and to set long-term goals for the firm accordingly (effective strategic guidance). Furthermore, from a capability and governance perspective, research suggests that corporate-level managers are in the best position to create efficient corporate structures, processes, and systems (e.g., Chandler 1962, 1977; Williamson 1970, 1975; Ghoshal & Bartlett 1994; Ocasio 1997; Bowman & Helfat 2001; Galunic & Eisenhardt 2001; Goold et al. 2002; Anand 2005; Collis & Montgomery 2005; Hill & Jones 2007). This may permit them to create an efficient and flexible internal transaction environment for permanent cross-business collaborations (effective corporate context). However, in large diversified firms, research suggests that corporate managers frequently lack the detailed knowledge of markets and resources to identify, select, and implement specific growth synergy initiatives effectively (e.g., Goold & Campbell 1998; Eisenhardt & Galunic 2000; Martin 2002). In contrast, while *business-level managers* usually are assumed to have a short-/medium-term perspective, lack the overview of the combined firm and have little experience in corporate (i.e. cross-business) designs, they are assumed to have more intimate knowledge of markets, customers and resources than corporate managers (e.g., Burgelman 1983a/b, 1991, 1994; Mintzberg & Waters 1985; Eccles & White 1986; Floyd & Woolridge

1997, 2000; Ghoshal & Bartlett 1998; Eisenhardt & Galunic 2000). This puts them into the best position to initiate growth synergy initiatives and manage the associated business-specific resource trade-offs (variation, selection and retention). Thus, an evolutionary corporate management approach of guided and balanced self-interest may combine the complementary knowledge and capabilities of corporate and business-level managers in the most appropriate way for continuous growth synergy realization.

(2) A further reason may be that an evolutionary corporate management approach of guided and balanced self-interest provides a balance between stability and flexibility that is beneficial for the continuous realization of growth synergies. The continuous realization of growth synergies generates corporate value by constantly recombining resources to capture cross-business opportunities (via temporary growth synergy initiatives). This is equivalent to joint adaptations of business units to a changing environment. Such adaptations require flexibility but also a certain amount of stability to prevent chaos (e.g., Brown & Eisenhardt 1997; Eisenhardt & Brown 1998). An evolutionary approach of guided and balanced self-interest with a stable corporate context within which temporary growth synergy initiatives can flexibly evolve may provide this balance.

(3) A related reason may be that an evolutionary corporate management approach of guided and balanced self-interest is most appropriate for addressing the complexity associated with continuous growth synergy realization. In a large diversified MBF such as ElectroCorp, the continuous realization of growth synergies is a complex problem that involves numerous stable links (sector organization) and temporary links (growth synergy initiatives) between businesses. Research suggests that such complex problems are best addressed by decentralized evolutionary designs (e.g., Kauffman et al. 1994; Kauffman 1995; Baum 1999; Lovas & Ghoshal 2000).

9.3.4 Summary and Propositions

In summary, our results suggest that an evolutionary corporate management approach of guided and balanced self-interest is a key success factor for the continuous realization of growth synergies. The strategic concept of selective focus and the organization design of decentralized collaboration form a corporate context that facilitates an ecological system for the evolutionary realization of growth synergies. The system is created by corporate management by shaping a portfolio of related businesses that are consistent with an overarching corporate business model and by designing and implementing a suitable corporate context for effective and efficient continuous growth synergy realization (macro role). Within the system, corporate management contributes to continuous growth synergy realization by fine-tuning the corporate context, coaching the businesses in synergy realization and temporarily incubating valuable growth synergy opportunities.

This study is among the first to establish a coherent corporate management approach for the continuous realization of growth synergies in moderately dynamic markets. Furthermore, providing a more fine-grained illustration of the activities of the corporate center, our findings contrast with those of many studies in strategic management literature, which imply either an extremely hands-on or hands-off role of corporate managers in synergy realization (e.g., Ansoff 1965, Rumelt 1970; Wrigley 1970; Hill & Hoskisson 1987; Hill et al 1992; Martin 2002; Martin & Eisenhardt 2005). Our findings suggest a more differentiated role: an active corporate management that acts as a corporate entrepreneur, who selectively intervenes in business-level affairs but is careful not to get involved in operational activities at the business level. Furthermore, our results suggest that selective intervention is determined at the intersection of opportunity and capability: Due to its overview of the corporate domain, ElectroCorp's corporate management recognized evolving product-market opportunities in cross-business domains early on and then drove the alignment of the organization to implement them within the corporation. In doing so, corporate management leveraged its corporate capabilities in strategy and creative thinking about new business opportunities as well as its organization design and implementation capabilities.

The following propositions summarize the key findings of this section:

Proposition 3 (corporate management): An evolutionary corporate management approach of guided and balanced self-interest is positively related to continuous growth synergy realization.

Proposition 4 (roles of the corporate center): The selective involvement of the corporate center is positively related to continuous growth synergy realization.

The following propositions specify the value-adding role of the corporate center (for selective involvement):

Proposition 4a (macro role: portfolio): The corporate center can contribute to continuous growth synergy realization by shaping a portfolio of related businesses that is consistent with an overarching business model.

Proposition 4b (macro role: corporate context): The corporate center can contribute to continuous growth synergy realization by designing and implementing a corporate context that facilitates guided and balanced self-interest.

Proposition 4c (micro role: fine-tuner): The corporate center can contribute to continuous growth synergy realization by incrementally adjusting the corporate context to improve variation, selection, and retention of growth synergy initiatives.

Proposition 4d (micro role: coach): The corporate center can contribute to continuous growth synergy realization by coaching the businesses in the realization of growth synergies in areas where it has specialist skills.

Proposition 4e (micro role: incubator): As a service center without any formal authority, the corporate center can contribute to continuous growth synergy realization by temporarily incubating a limited number (2-3) of promising growth synergy opportunities that guided business unit self-interest fails to capture.

10 Summary and Discussion of Part II

Previous research suggests that horizontal relationships among businesses can lead to growth synergies (e.g., Davis & Thomas 1993; Tanriverdi & Venkatraman 2005; Müller-Stewens & Knoll 2006). In many of today's saturated low-growth markets, the pursuit of such growth synergies is becoming increasingly important for MBFs. A recent study of the 116 largest multi-business firms in Switzerland, Germany, and Austria shows that over 70% of these firms actively pursue growth synergies and attribute a high strategic importance to them (Müller-Stewens & Knoll 2006). However, despite the importance that practitioners attribute to growth synergies, their continuous realization has received little, if any, attention in the literature. This is disturbing, as the realization of synergies frequently is an indefinable goal for corporate managers (cf. Bettis 1981; Amit & Livnat 1988; Ramanujam & Varadarajan 1989; Eisenhardt & Galunic 2000; Palich et al. 2000; Martin 2002) that leads them to destroy rather than add value (Goold & Campbell 1998).

This study addresses this gap in the literature by exploring the research question: "How do multi-business firms continuously realize growth synergies?" Specifically, this study focuses on the strategy and organization design that facilitate the continuous realization of growth synergies in the context of permanent cross-business collaborations in moderately dynamic markets.

In this chapter we first summarize the key findings that emerged from our exploratory work and our longitudinal in-depth case study (10.1). Subsequently, we discuss the broader contributions to theory (10.2) and managerial practice (10.3) that the empirical part of this study attempts to make. Finally, we discuss the limitations of our research (10.4) and suggest directions for future research (10.5).

10.1 Key findings

Several findings have emerged from the inductive longitudinal in-depth single case study of continuous growth synergy realization and our exploratory work. These findings include insights into the sources and nature of growth synergies (10.1.1), a mid-range theory of continuous growth synergy realization (10.1.2), and the specification of a novel type of governance and integration mechanism in MBFs, the secondary work-structure (10.1.3).

10.1.1 Insights into the sources and nature of growth synergies

This study is among the first to conceptualize and explore growth synergies. Our findings provide novel insights into the sources and nature of growth synergies:

(1) First, the primary sources of value in growth synergies that we observed in this study are higher customer utility and increased differentiation (e.g., Porter 1985),

economies of growth from expanding markets and increasing market share (e.g., Penrose 1959; Helfat & Eisenhardt 2004), and the reconfiguration of operative resources to match changing market opportunities (e.g., Schumpeter 1934, 1942; Eisenhardt & Galunic 2000; Eisenhardt & Martin 2000; Martin 2002). This sharply contrasts with the primary sources of value in efficiency synergies that are cost savings resulting from economies of scope and/or agency and transaction advantages (e.g., Chandler 1962; Williamson 1975; Bettis 1981; Palepu 1985).

(2) Furthermore, the primarily external focus of growth synergies on markets and customers contrasts with the primarily internal focus of efficiency synergies on value chain functions (e.g., Porter 1985; Davis & Thomas 1993). In the extreme case, the strategic logic of growth synergy realization shifts from leveraging existing resources to seizing opportunities using novel combinations of existing resources across businesses. For instance, as Philips' CEO Gerard Kleisterlee describes: "*We used to start by identifying our core competencies and then looking for market opportunities. Now, we ask what is required to capture an opportunity and then (...) develop them internally to fit*" (from Santos & Eisenhardt 2005: 498).

(3) Finally, growth synergies are frequently associated with 'change' and 'exploration' in that their realization often implies the coevolution of the firm's businesses with changing market circumstances (cf. McKelvey 1997; Koza & Lewin 1998; Lewin & Volberda 1999; Martin 2002). For instance, the combination of resources across businesses to develop new products aims to adapt the resource configuration of the firm to new opportunities that emerge in the competitive landscape (cf. Eisenhardt & Martin 2000).

10.1.2 Mid-range theory of continuous growth synergy realization

The major result of our research is a preliminary mid-range theory of continuous growth synergy realization in MBFs that we derived from our data. Based on this evidence, we inferred two major constructs for the continuous realization of growth synergies from our data: a strategic concept of selective focus and an organization design of decentralized collaboration. These two constructs integrate into a super-ordinate corporate management model of guided and balanced self-interest.

(1) First, the continuous realization of growth synergies is positively related to a strategic concept that establishes a ***selective focus*** on specific growth synergy opportunities. Three mutually reinforcing elements of the strategic concept create a selective focus: A strategic frame that focuses synergy realization on a central strategic theme linked to corporate advantage, a narrow scope that focuses on cross-business domains with high growth potential, and horizontal strategies that guide the continuous exploitation of these domains.

A selective focus has several consequences that may contribute to continuous growth synergy realization. First, it focuses organizational attention, lowers ambiguity, and clarifies market opportunities. This reduces managerial perception biases, improves the identification of growth synergies, and stimulates decision makers to engage in synergy realization. Second, by concentrating investments, a selective focus helps to ensure sufficient resource endowments to growth synergy initiatives and thus improves their implementation. Third, by fostering collective sense-making and providing a stable center of gravity, a selective focus supports permanent cross-business collaboration.

Moreover, our results suggest that the realization of growth synergies benefits from a focus on customers and requires dedicated horizontal strategies. A customer focus helps to build the market knowledge and domain experience that is necessary to successfully realize growth synergy initiatives which derive their value from increased customer utility. Dedicated horizontal strategies focus the realization of growth synergies on market segments where the firm has a competitive advantage. Furthermore, they coordinate investment decisions and capability development between the businesses (cross-business strategies) and across the businesses (corporate business models).

These findings emphasize the importance of strategic guidance for the continuous realization of growth synergies. Managers that engage in permanent cross-business collaboration seem to require strategic guidance to continuously identify, select, and implement successful growth synergy initiatives. These insights contrast with prior studies on synergy realization in dynamic markets through temporary cross-business collaborations (e.g., Eisenhardt & Galunic 2000; Martin 2002), which do not seem to attach any importance to strategic context factors.

Broadly, our findings can be related to the research on the relationship between the content and success of strategic initiatives (e.g., Schmid 2005). This line of research indicates that focused strategic initiatives are more successful than initiatives that pursue broader goals (Schmid 2005). Additionally, some literature on strategy process supports our findings. Strategy process research suggests that focused corporate goals that reflect the preferred future position of the firm (as established by a selective focus) can increase the selection quality of strategic initiatives (Lovas & Ghoshal 2000) and can clarify the opportunity space of the organization (Simons 1994). Furthermore, the attention-based view of the firm (Simon 1947; Ocasio 1997) suggests that a selective focus of attention on specific issues facilitates strategic actions by focussing the energy, effort, and mindfulness of decision-makers.

(2) Second, the continuous realization of growth synergies is positively related to an organization design of ***decentralized collaboration***. A design of decentralized collaboration consists of four mutually reinforcing elements: decentralization, strong busi-

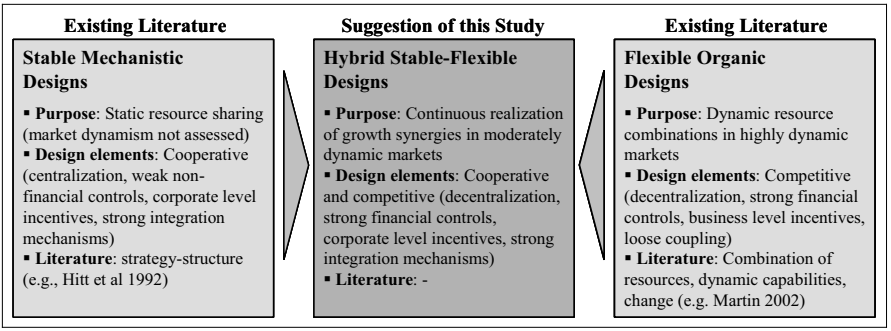
ness-specific financial controls, corporate-level incentives, and strong integration mechanisms.

A design of decentralized collaboration has several consequences that may contribute to continuous growth synergy realization: *Decentralization* gives businesses autonomy in the realization of growth synergies within the selective strategic focus. It enhances variation and provides flexibility and responsiveness, which allow capturing the temporary market opportunities that constitute growth synergy initiatives. Furthermore, decentralization delegates the selection of growth synergy initiatives to business-level managers that are closer to the market and execution and thus have a more realistic and concrete picture of growth synergy realization than corporate managers. The involvement of business-level managers may also foster their commitment to the implementation of growth synergy initiatives. *Strong business-specific financial controls* generate productive self-interest of businesses for the realization of growth synergies. This self-interest reduces the pursuit of value-destroying growth synergy initiatives and optimizes resource allocation. Businesses only participate in growth synergy initiatives when the value-creating opportunity justifies the reallocation of resources from other projects within the business unit to the cross-business initiative. Furthermore, by establishing ambitious (stretch) targets, strong financial controls may reduce collaborative inertia between businesses. To meet the ambitious targets, businesses-unit general managers are motivated to look beyond the boundaries of their units and exploit growth synergy potential. *Corporate-level incentives* facilitate the development of a collaborative corporate culture which improves continuous cross-business collaboration through increasing motivation, establishing trust, providing a common point of reference and exerting behavioral control. Furthermore, a collaborative corporate culture provides a social counterbalance for the strong economic self-interest of businesses. This helps to ensure that overwhelming business unit self-interest does not turn into 'destructive self-interest' that hinders cross-business collaboration by breeding distrust and reducing the investment in common-pool resources. *Strong integration mechanisms* improve continuous cross-business collaboration and thus growth synergy realization by establishing trust, reducing conflict, generating social capital, motivating, reducing complexity and transaction costs, economizing attention, fostering domain experience, and preserving cross-business knowledge. Furthermore, they enable quick responses to emerging cross-business market opportunities.

These findings have an interesting comparison to what strategy-structure research (e.g., Hill et al. 1992) and research on resource combinations in highly dynamic markets (e.g., Martin 2002; Martin & Eisenhardt 2005) would predict as consistent organization designs for cross-business synergy realization in related diversified MBFs. The observations in this study suggest an organization design that neither literature would predict and accept as being consistent. Our research proposes an organization design that combines cooperative organizational elements of the 'stable mechanistic struc-

tures' suggested by strategy-structure literature for the efficient and static sharing of resources (corporate-level incentives and strong integration mechanisms) and competitive elements of 'flexible organic structures' implied by resource combination literature for the dynamic combination of resources (decentralization and strong business-specific financial controls). This indicates that the continuous realization of growth synergies requires hybrid designs for stable yet flexible cross-business collaborations that lie between the two extreme designs implicated by strategy-structure and resource combination literature (see figure 10-1).

Figure 10-1: Hybrid stable-flexible designs for continuous growth synergy realization



Source: author

(3) The strategic concept of selective focus and the organization design of decentralized collaboration integrate into a ***corporate management approach of guided and balanced self-interest***.

This corporate management approach works as an ecological system for the evolutionary realization of growth synergies, which is fueled by business unit self-interest. In this system, growth synergy initiatives are the units of selection, the strategic frame is the guiding objective function and the design of decentralized collaboration forms the selection environment that enables and guides the realization of growth synergies without active command and control from the corporate center. The sources of variation are principally all employees. However, most variation comes from the employees working in the secondary work-structures, as they are 'close to the action'. The agents of selection and retention are the members of the secondary decision-making structures, who autonomously decide on the formation and termination of growth synergy initiatives without any corporate center involvement.

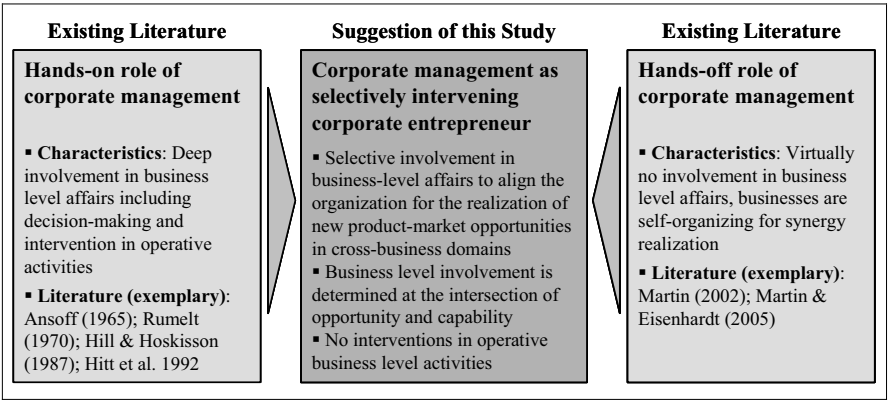
Corporate managers have two roles in the model of growth synergy realization as guided and balanced self-interest. First, they create the ecological system through shaping a portfolio of related businesses, which is consistent with an overarching corporate business model and through designing and implementing the objective function

(strategic concept of selective focus) and the selection environment (organization design of decentralized collaboration). Second, within the system, corporate managers contribute to continuous growth synergy realization through constantly fine-tuning the corporate context, coaching the businesses in synergy realization and temporarily incubating valuable growth synergy opportunities.

A corporate management approach of guided and balanced self-interest has several consequences that may contribute to the continuous realization of growth synergies: First, the approach leverages the complementary knowledge and competencies of corporate-level managers (corporate strategy and design capabilities) and business-level managers (operational and execution capabilities). Corporate managers have the oversight, long-term perspective, and organizational capabilities to guide continuous growth synergy realization through pinpointing the most profitable cross-business domains and through creating an efficient yet flexible internal transaction environment for permanent cross-business collaboration. In contrast, business managers have the short/medium-term perspective, operational skills and detailed knowledge of markets, customers, and resources to identify, select, and implement specific growth synergy initiatives. Second, the approach provides a balance between flexibility and stability that permits the timely initiation of growth synergy initiatives to exploit market opportunities but also ensures efficient cross-business collaboration. Finally, such an evolutionary approach is suitable for addressing the high degree of task complexity of continuous growth synergy realization.

Our study provides one of the first conceptualizations of a coherent corporate management approach for the continuous realization of growth synergies (in moderately dynamic markets). Furthermore, our results contrast with the extreme hands-on or hands-off roles of corporate managers in synergy realization that many studies in strategic management literature imply (e.g., Ansoff 1965, Rumelt 1970; Wrigley 1970; Hill & Hoskisson 1987; Hill et al 1992; Martin 2002; Martin & Eisenhardt 2005). Our findings suggest a more differentiated role: Active corporate management that acts as a corporate entrepreneur, who selectively intervenes in business-level affairs but is careful not to get involved in operational activities. Furthermore, our results suggest that this selective intervention is determined at the intersection of opportunity and managerial capability: Due to its overview of the corporate domain, ElectroCorp's corporate management recognized evolving product-market opportunities in cross-business domains early on and then drove the alignment of the organization to implement them within the corporation. In doing so, corporate management leveraged its corporate capabilities in strategy and creative thinking about new business opportunities as well as its organization design and implementation capabilities. Figure 10-2 provides a summary.

Figure 10-2: Corporate management as corporate entrepreneur



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Boundary conditions of mid-range theory: Our mid-range theory of continuous growth synergy realization may be limited by several boundary conditions that stem from the characteristics of the case from which we inducted the theory[139]: One boundary condition may be *moderate environmental dynamism* as we observed continuous growth synergy realization in this setting. In stable or highly dynamic environments, other approaches may be more suitable. For instance, in highly dynamic environments, loose coupling between collaborating businesses may be more appropriate than strong integration (e.g., Martin 2000). Another boundary condition may be the size and complexity of the MBF. We investigated a *large sized organization* with a *complex primary organizational structure* (matrix). In smaller and less complex organizations, other organizational arrangements may be more successful. Finally, our case company consisted of businesses with a rather *low degree of relatedness* to each other. MBFs that consist of businesses that are more closely related (high degree of relatedness) may display different key success factors of continuous growth synergy realization. For instance, in MBFs with closely related businesses, corporate managers may have the market and product knowledge to intervene in business-level operations (cf. Raynor 2000a).

10.1.3 Secondary work-structures

The results of this study also specify a novel type of governance and integration mechanism in MBFs, secondary work-structures. These structures are permanent formal cross-business coordination mechanisms without primary profit and loss responsi-

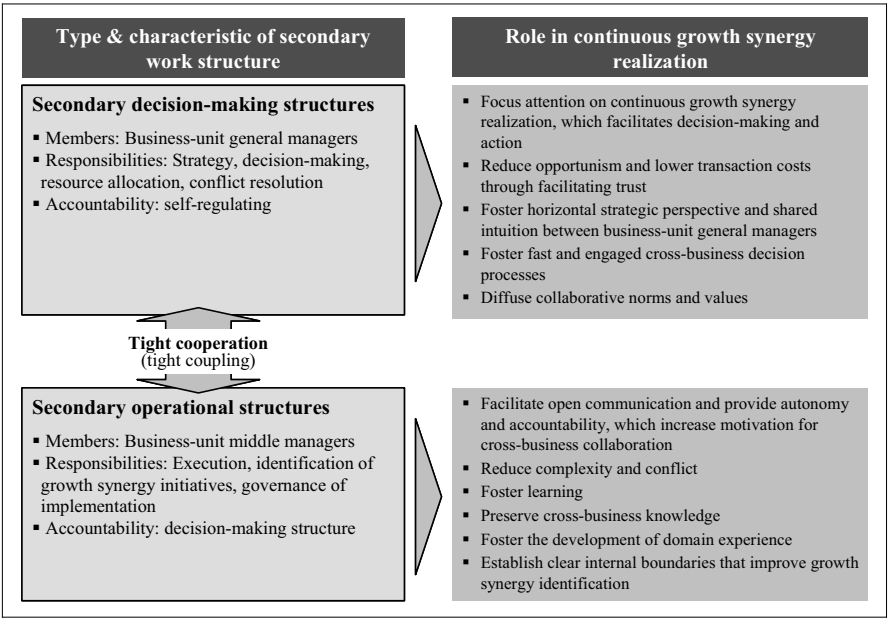
[139] This mid-range theory is also subject to further limitations of our study, which we will discuss in chapter 10.3.

bility that consist of business-level managers and have clearly defined responsibilities, reporting relationships, and accountabilities. Secondary work-structures consist of two complementary types of entities that operate in close coordination: The first type is secondary decision-making structures. Secondary decision-making structures are multi-business boards that consist of business unit general managers, who have the shared responsibility and authority to make decisions on cross-business issues. Their members develop cross-business strategies, select growth synergy initiatives, and allocate resources. The second type is secondary operating structures. Secondary operating structures are multi-business teams that consist of business unit middle managers, who have the shared responsibility and authority to execute growth synergy initiatives. Their members identify growth synergy initiatives, govern and coordinate the implementation of growth synergy initiatives, and support the members of the decision-making structures in strategy development.

Secondary work-structures play an essential role in continuous growth synergy realization. They focus attention, reduce opportunism, lower transaction costs, foster a horizontal strategic perspective, enable fast and engaged decision-making, diffuse collaborative norms and values, facilitate open communication, reduce complexity and conflict, foster learning and the development of domain experience, and preserve cross-business knowledge (see figure 10-3 on the next page for an overview).

The important role of secondary work-structures suggests that the continuous realization of growth synergies requires bringing general and middle managers of the business units together in permanent stable yet flexible cross-business structures from which growth synergy initiatives can constantly emerge and their implementation can be governed efficiently. This fact also underlines the significance of business unit general and middle managers for continuous growth synergy realization.

Figure 10-3: Types, characteristics, and roles of secondary work-structures



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Secondary work-structures appear to combine the benefits of centralization (i.e. stability and overview to increase efficiency and consistency) with those of decentralization (i.e. flexibility and market proximity to capture growth synergy opportunities). They are similar to what Brown & Eisenhardt (1997: 28) term 'semi-structures' and define as "*organizations in which some features are prescribed or determined (e.g., responsibilities, project priorities) but others are not*".

Furthermore, secondary work-structures seem to be a novel form of governance in the M-form that focuses on the horizontal relationships between the businesses of the firm and that organization theory has not yet conceptualized sufficiently (cf. Martin 2002). Therefore, this study contributes to a more fine-grained conceptualization of cross-business integration mechanisms in M-form structures and enriches the literature on lateral coordination mechanisms (e.g., Lawrence & Lorsch 1967; Galbraith 1994, 2005). Moreover, this study suggests further research on horizontal governance mechanisms in MBFs. Future studies could explore horizontal governance in different internal contexts (e.g., horizontal governance in situations of ambidexterity) and external contexts (e.g., horizontal governance in varying degrees of environmental dynamism). Furthermore, research could more closely investigate the internal dynamics and decision-making processes within these structures.

10.2 Implications for theory

This research attempts to make broader contributions to theories of strategy (10.2.1) and theories of organization design (10.2.2), which we discuss in the following.

10.2.1 Strategy

This research attempts to make a broader contribution to strategy by providing insights into the nature of the corporate effect, clarifying the role of the corporate center in synergy realization, and emphasizing the role of horizontal relationships between business units in the emergence of corporate strategy. Furthermore, this study provides a more comprehensive view of resource relatedness and encourages a more holistic conceptualization of dynamic capabilities.

(1) Insights into the nature of the corporate effect

This study provides insights into the nature of the corporate effect (Bowman & Helfat 2001). In particular, our research highlights the importance of stable yet flexible collaborations between businesses to capture growth opportunities by combining resources in a moderately dynamic environment. These horizontal collaborations represent an important source of corporate value that has received little, if any, attention in the literature.

Therefore, this research provides a complementary view to the implicit focus in strategy literature on horizontal collaborations for increasing corporate efficiency (e.g., Hitt et al. 1992) and contributes to a more competence- and growth-oriented conceptualization of corporate strategy (cf. Foss 1997; Santos & Eisenhardt 2005). Furthermore, this dissertation complements the research on resource combinations in highly dynamic environments that focuses on the generation of corporate value through temporary cross-business collaborations (e.g., Martin 2002).

Thus, this research contributes to the emerging efforts of researchers to establish "*a framework in which to reexamine aspects of theories of coordination, like reciprocal interdependence, which have not been addressed in the literature since Thompson's (1967) thesis on organization action*" (Martin 2002: 143).

(2) Role of the corporate center/corporate management

An important issue of strategy and a neglected area of research is the question regarding the function and value added of the corporate center in MBFs (Hill 1994; Rumelt et al. 1994; Foss 1997; Markides 2002). This study informs corporate center research by describing how the corporate center can contribute to the continuous realization of growth synergies.

In particular, our research highlights the strategic and organization design capabilities of corporate managers, which materialize in a value-adding corporate context that provides guidance, reduces opportunism and facilitates an efficient yet flexible internal transaction and learning environment for cross-business collaboration. Furthermore, this study elaborates the specific corporate center activities (roles) through which these capabilities are selectively applied.

More broadly, this study has two implications for corporate center research:

(1) First, it makes the case for empirical and problem-driven corporate center research. Research on the corporate center in strategy literature is often theoretical: The appropriate role of the corporate center is derived based on theories of the firm that explain why it is beneficial to organize several businesses under the umbrella of a firm (e.g., reduction of transaction and governance costs, learning, market power, competence building) (e.g., Markides 2002). The unintended result is that the proposed roles of the corporate center are not specific enough to be informative. For instance, the suggestion that the corporate center should design an appropriate structural context to promote coordination between businesses for competence building (Markides 2002) does not provide much insight into the specific function and value-adding role of the corporate center. The results from our study suggest that an open-minded, problem-driven empirical approach to corporate center research (e.g., the exploration of the role of the corporate center in continuous growth synergy realization) may produce insights that are more specific and are likely to lead to immediate benefits for practice in terms of a firmer grounding of corporate management activities. In the longer term, such a research approach may lead to fresh theoretical ideas that are 'outside the box' of known theory.

(2) Second, our study suggests that corporate center research may benefit from more closely exploring the knowledge and managerial capabilities that are located at the corporate center. Most corporate center research in strategy is either anecdotal or, as just discussed, purely theoretical in that it derives the role of the center based on the theory of the firm (e.g., Goold et al. 1994; Markides 2002). Consequently, there is a paucity of research relating to knowledge and managerial capabilities at the corporate level and their influence on the function of and value added by the corporate center. However, this study suggests that corporate center knowledge and capabilities may significantly influence the value-adding role of the corporate center: Corporate management knowledge and capabilities at ElectroCorp enabled the center to create a value-adding corporate context for continuous growth synergy realization. Furthermore, a lack of knowledge and capabilities led corporate managers to refrain from intervening in the actual identification, selection, and implementation of growth synergy initiatives at the business level. Research on the capabilities of the corporate center may also help to explain inconsistent findings of centralization and decentralization in

MBFs (e.g., Chandler 1962; Hitt et al. 1992; Martin 2002; Martin & Eisenhardt 2005).

(3) Strategy process and the conceptualization of strategy in the multi-business firm

This study also contributes to strategy process research by providing insight into the emergence of corporate strategy through interactions *between* businesses of an MBF. Therefore, this paper complements the theoretical and empirical work in strategy process that has predominately focused on the processes of resource allocation and strategy formation within individual businesses or between individual businesses and the corporate center (e.g., Bower 1986; Burgelman 1983, 1991, 1994; Floyd & Woolridge 2000). In particular, this research illustrates how cross-business strategies can evolve from guided collaborations across related businesses within a corporate context that emphasizes business unit self-interest.

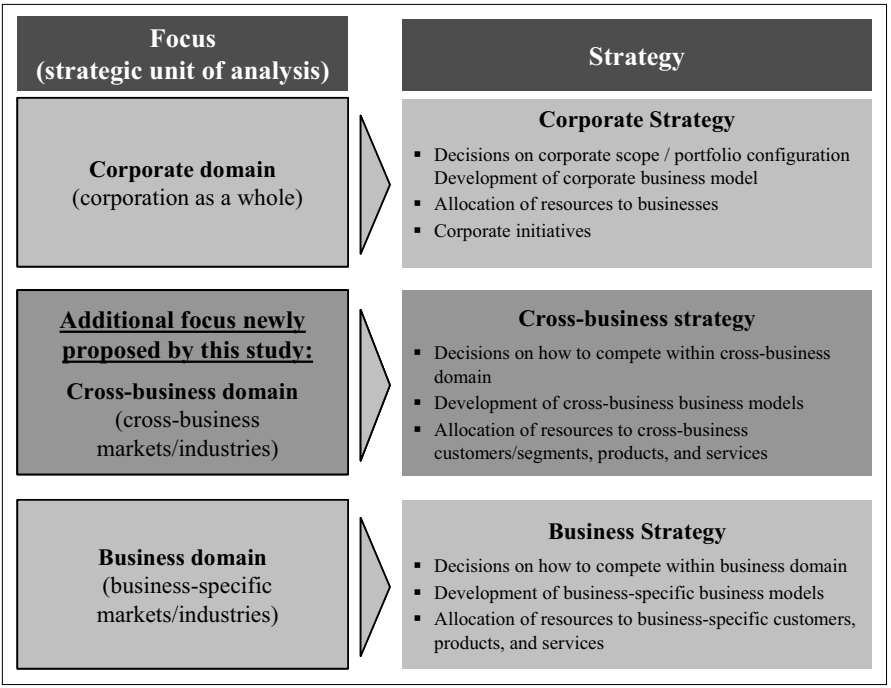
Furthermore, this study also contributes by providing a more fine-grained conceptualization of strategy in the MBF. Current strategy literature differentiates between corporate and business strategy in MBFs (e.g., Goold et al. 1994; Collis & Montgomery 2005; Grant 2005a; Barney 2007). The following definition of corporate and business strategy by Grant (2005: 23, emphasis added) is representative:

> *"**Corporate strategy** defines the scope of the firm in terms of the industries and markets in which it competes. Corporate strategy decisions include investment in diversification, vertical integration, acquisitions, and new ventures; the allocation of resources between the different businesses of the firm; and divestments. **Business strategy** is concerned with how the firm competes within a particular industry or market. If the firm is to prosper within an industry, it must establish a competitive advantage over its rivals. Hence, this area of strategy is also referred to as competitive strategy."*

Our research suggests a more fine-grained conceptualization of strategy in the MBF. Specifically, it suggests *cross-business domains* as a distinctive unit of analysis for strategizing, which has received little, if any, attention in the literature. In particular, our research illustrates that MBFs may have three levels of strategy: The first level is *corporate strategy* and focuses on the corporate domain. Corporate strategy includes decisions regarding the corporate scope (i.e. diversification, vertical integration, major acquisitions, new ventures, and divestments), the design of a corporate business model, the allocations of resources to businesses, and the development of corporate strategic initiatives to achieve corporate advantage. The second level (newly proposed by this study) is *cross-business strategy* and focuses on cross-business domains. Cross-business strategy involves decisions on how to compete within the cross-business domain, the development of specific business models for the cross-business domain, and the allocation of resources to cross-business customers, segments, prod-

ucts, and services. The third level is *business strategy* and focuses on the business domain. Business strategy involves decisions on how to compete within the business-specific domain, the development of business-specific business models, and the allocation of resources to business-specific customers, segments, products, and services. Figure 10-4 provides an overview.

Figure 10-4: More fine-grained conceptualization of strategy in the MBF



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(4) Diversification and Relatedness

Furthermore, this study provides a more comprehensive view of resource relatedness, with a particular emphasis on complementarity. Most diversification studies in strategy use measures based on SIC codes to assess the degree of relatedness within MBFs. The SIC codes classify business activities by industries and are grouped according to material linkages and similarities, which rather represent production similarities than markets served or technologies used (cf. Montgomery 1982, Palepu 1985, Davis & Thomas 1993). Consequently, these diversification studies miss other important types of relatedness such as complementarities and relatedness between other value chain dimensions (e.g., Davis & Thomas 1993; Larsson & Finkelstein 1999; Tanriverdi & Venkatraman 2005) and neglect intangible bases of relatedness like knowledge (e.g.,

Martin 2002; Tanriverdi & Venkatraman 2005).

This study highlights and clarifies the corporate value potential of complementary and intangible resources across businesses of a MBF (e.g., combination of complementary knowledge across businesses to create unique cross-business solutions). Therefore, this research improves our understanding of complementary resources within MBFs and confirms their importance for the generation of corporate value (e.g., Tanriverdi & Venkatraman 2005). Furthermore, our research suggests that new measures of resource relatedness need to be developed that capture complementarities as well as similarities within MBFs. These measures may provide a more realistic picture of the value potential of MBFs and may contribute to resolving inconsistencies in existing diversification-performance studies.

(5) Dynamic capabilities

Finally, this study contributes to the literature on dynamic capabilities. Dynamic capabilities are organizational processes by which members manipulate resources to develop new value-creating strategies (Teece et al 1997; Eisenhardt & Martin 2000). Our research contributes to dynamic capabilities in two ways:

(1) First, this paper provides an empirical example of dynamic capabilities as a source of competitive advantage for MBFs operating in moderately dynamic environments. Specifically, our research shows how MBFs can realize corporate value from combining resources across businesses to capture growth synergy opportunities.[140]

(2) Second, this study contributes by illuminating the importance and role of strategy, organization design, and corporate management for creating and sustaining dynamic capabilities at the level of the corporation. Specifically, our research suggests that the dynamic capability to capture growth synergies at ElectroCorp depends on the intervention of corporate management to establish a selective strategic focus and a decentralized organization design that facilitates and balances business unit self-interest. Strategy, organization design, and, more broadly, corporate management were the key success factors of continuous growth synergy realization, not the process of growth synergy realization itself (process of growth synergy identification, selection, and implementation). This implies that the conceptualization of dynamic capabilities as organizational process (as proposed by Eisenhardt & Martin 2000) may be too narrow, at least at the level of analysis of the corporation. Consequently, this study suggests that new definitions of dynamic capabilities that include elements of strategy and organization design as well as elements of corporate management need to be explored.

[140] This relates to the dynamic capability meta-processes 'recombining existing resources in new ways and recoupling business units' (cf. Eisenhardt & Martin 2000).

10.2.2 Organization Theory

This research also attempts to make a boarder contribution to organization theory by conceptualizing a novel organization design for related diversifiers, providing insights into the competence-driven emergence of organizational boundaries, and confirming as well as extending a recombinative and coevolutionary rationale for the M-form. Furthermore, this research offers a possible contribution to the coevolutionary perspective of change in organization theory by describing how organizational change can result from the coevolution of the business units with changing market circumstances and by suggesting a new organizational form for the coevolutionary adaptation of MBFs. Finally, this study attempts to contribute to innovation research by providing insights into the largely unexplored field of cross-business innovation and suggesting a more differentiated view of organizational forms that support the simultaneous pursuit of exploration and exploitation

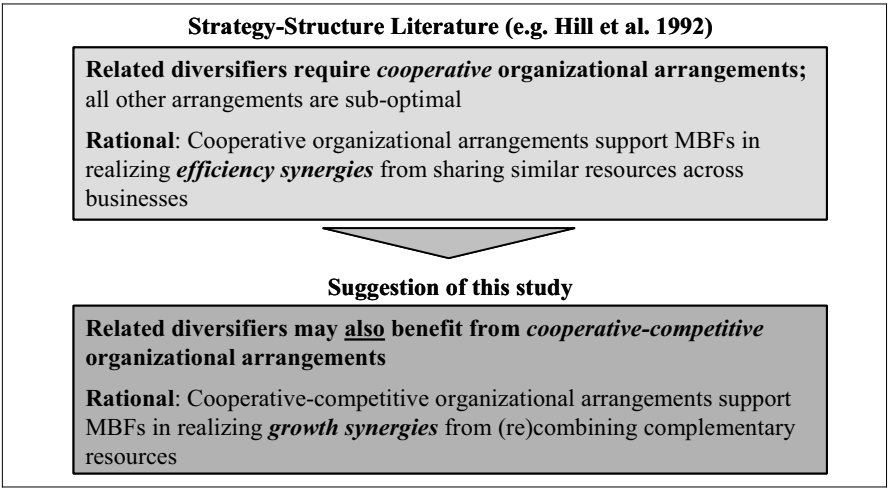
(1) Strategy-structure choice

This study contributes to strategy-structure literature by suggesting a novel organizational design for related diversifiers that focuses on growth advantages (growth synergies) rather than efficiency advantages (efficiency synergies). Strategy structure literature explores the organizational arrangements needed to implement different diversification strategies (e.g., Lorsch & Allen 1973; Hill & Hoskisson 1987; Govindarajan & Fisher 1990; Hill et al. 1992). This literature suggests that firms pursuing related diversification need to adopt *cooperative* organizational arrangements to realize economies of scope, while those pursuing unrelated diversification need to adopt *competitive* arrangements to realize governance economies (Hill et al. 1992).[141]

The results of our study suggest a more differentiated view of the strategy-structure choice for related diversifiers. Specifically, our study highlights *competitive yet cooperative* organizational arrangements that facilitate, guide, and balance self-interest for related diversifiers aiming at realizing corporate growth advantages (i.e. growth synergies). In contrast to cooperative organizational arrangements, these cooperative-competitive designs are decentralized and employ strong business-specific financial controls for the evaluation of business units. Therefore, our research suggests that further studies need to explore these two competing organizational arrangements for related diversifiers (cooperative vs. cooperative-competitive). These studies may also consider the impact of economic cycles of efficiency and growth as well as management intentionality (corporate efficiency strategy vs. corporate growth strategy) on the organizational arrangements of related diversifiers. Figure 10-5 (on the next page) summarizes our suggestion to strategy-structure literature.

[141] Hill et al. (1992) refer to governance economies as agency and transaction advantages from an internal capital market (i.e. financial synergies), which they see as the prime economic rational for unrelated diversifiers.

Figure 10-5: Suggestion of this study to strategy-structure literature



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(2) Boundaries of competence

This study contributes to organization theory by providing insights into the competence-driven emergence of organizational boundaries. The emergence of the boundaries of the firm, i.e. the demarcation between the organization and its environment, is a central issue in organization theory (Santos & Eisenhardt 2005). Contemporary organization literature discusses four distinct conceptualizations of organizational boundaries (Santos & Eisenhardt 2005): boundaries of efficiency (e.g., Williamson 1981, 1991), boundaries of power (e.g., Pfeffer & Salancik 1978; Porter 1980), boundaries of identity (e.g., Prahalad & Bettis 1986; Dutton & Dukerich 1991; Weick 1995a), and boundaries of competence (e.g., Penrose 1959; Chandler 1977; Wernerfelt 1984; Barney 1991; Teece et al. 1997; Eisenhardt & Martin 2000).

Our research contributes to the competence-based conceptualization of organizational boundaries by illuminating how MBFs expand into adjacent (i.e. nearby related) product-market domains to match organizational resources with environmental opportunities (cf. Santos & Eisenhardt 2005). Specifically, our study illustrates how ElectroCorp dynamically expanded its horizontal boundaries in the quest to exploit growth synergies: To realize growth synergies, ElectroCorp's managers combined existing and new resources across businesses to enter the nearby product-market domain of integrated solutions.

(3) Recombinative M-form

Furthermore, our research contributes to the emerging conceptualization of the recombinative M-form. The traditional rationale for the M-form in organization literature is increased efficiency by economizing attention (Chandler 1962, 1991) and/or controlling opportunism (Williamson 1975, 1985). An emerging stream of literature in organization theory suggests a new rational of the M-form, which focuses on the adaptive advantages of the organization form for capturing significant collaborative opportunities in dynamic environments (Martin 2002; Martin & Eisenhardt 2005). This literature views the organization form as valuable because it enables richer information flows for innovation and more rapid, flexible recombination of resources. The "*recombinative M-form"* is viewed *"as a next step in the evolution of the multidivisional form*" (Santos & Eisenhardt 2005: 504). Specifically, the recombinative M-form reiterates three themes: the dynamism of modular structure, a pro-social understanding of individuals, and the central role of organizational processes (Martin & Eisenhardt 2005). Our research contributes to the first of these themes in two ways:

(1) First, in line with recent research by Martin & Eisenhardt (2005), this study confirms the adaptive quality of modularity in multi-business organizations in that successful growth synergy realization was based on growth synergy initiatives that were able to evolve independently, while at the same time benefiting from the reallocation of resources to them and system level coordination with the business units (cf. Sanchez & Mahoney 1996 from Martin & Eisenhardt 2005).

(2) Second, our research provides further insights into the emergence and evolution of cross-business collaborations, i.e. the recoupling of the relationships among businesses. Within the recombinative M-form, the recoupling process has been identified as a central motor of adaptation (Martin & Eisenhardt 2005). We contribute by presenting evidence for the success of *guided* (i.e. induced) recoupling and thereby provide a contrast with existing research, which suggests that high-performing relationships between business units emerge *autonomously* through self-organization (e.g., Martin 2002; Martin & Eisenhardt 2005). Specifically, our study suggests that guided (i.e. induced) recoupling of relationships among businesses may also lead to successful adaptations, particularly in moderately dynamic environments: At ElectroCorp, corporate managers guided the recoupling of relationships among businesses by establishing a corporate context that facilitated the emergence of growth synergy initiatives.[142] Furthermore, our study emphasizes the importance of semi-structures for guided recoupling: At ElectroCorp, secondary work-structures like sector development boards and sector support teams seemed to be a precondition for the emergence of growth synergy initiatives that incrementally adapted the organization to a changing environment.

[142] Note that growth synergy initiatives represent. temporary cross-business relationships.

(4) Organizational change and a new organizational form for coevolutionary adaptation of MBFs in situations of strategic uncertainty

This study also attempts to make a broader contribution to organization theory by (a) providing insights into organizational change and (b) suggesting a new organizational form for coevolutionary adaptation of MBFs in the face of strategic uncertainty.

(a) Organizational Change

Change is a central topic in organization theory that is explored in several streams of literature including organizational ecology (e.g., Hannan & Freeman 1977; Carroll 1984), institutional theory (e.g., Fligstein 1985; DiMaggio & Powell 1983; Biggart & Guillen 1999; Frankenberger 2005), social network theory (e.g., Uzzi 1999; Hansen 1999), and coevolutionary theory (Koza & Lewin 1998; Lewin et al. 1999; Martin 2002).

This study contributes to the last stream, coevolutionary theory, by going inside the organization and describing how organizational change can result from the coevolution of the business units with changing market circumstances (cf. McKelvey 1997; Martin 2002). Coevolution is defined as the "*joint outcome of managerial intentionality, environment, and institutional effects*" (Lewin & Volberda 1999: 526). While theoretical and empirical work from a coevolutionary perspective has traditionally focused on change at the level of analysis of the firm (e.g., Lewin et al. 1999), researchers have recently begun to explore coevolutionary change within firms (e.g., Martin 2002; Martin & Eisenhardt 2005). Our research contributes to these recent studies by complementing their narrow focus on processes with an emphasis on strategic and organization design aspects. Specifically, our research illustrates how a concept of strategic focus and a design of decentralized collaboration contribute to the emergence of growth synergy initiatives that adapt the resource configurations of the corporation to new opportunities that emerge in the competitive landscape.[143] For instance, several of ElectroCorp's growth synergy initiatives have led to innovative offerings that addressed changing customer needs as well as converging markets and captured opportunities in closely related product-market domains (market for integrated solutions).

(b) New organizational form for coevolutionary adaptation of MBFs in situations of converging markets and strategic uncertainty

More broadly, this study contributes to change by suggesting a new organization form for incremental coevolutionary adaptation of multi-business firms in situations of converging markets and strategic uncertainty. The organization form is based on real-options logic for achieving strategic flexibility (cf. Bowman & Hurry 1993; Raynor

[143] Note that the coevolutionary change that this study refers to is characterized by *incremental evolutionary change* into *new markets* (cf. Miller 1980, 1982).

2000a,b) and grounded in the recombinative rational of the M-form (Martin 2002; Martin & Eisenhardt 2005).

Scholarly research into incremental coevolutionary organizational responses to situations of converging markets and strategic uncertainty has focused on decision-making and the appropriate role of top and middle management in coping with environmental turbulence (e.g., Chakravarthy 1997; Eisenmann & Bower 1999) or on diversification responses that embed real-options into the portfolio structure (Raynor 2000a, 2000b). By emphasizing the dynamic role of corporate structure for MBFs coping with convergence and strategic uncertainty, our study complements this literature.

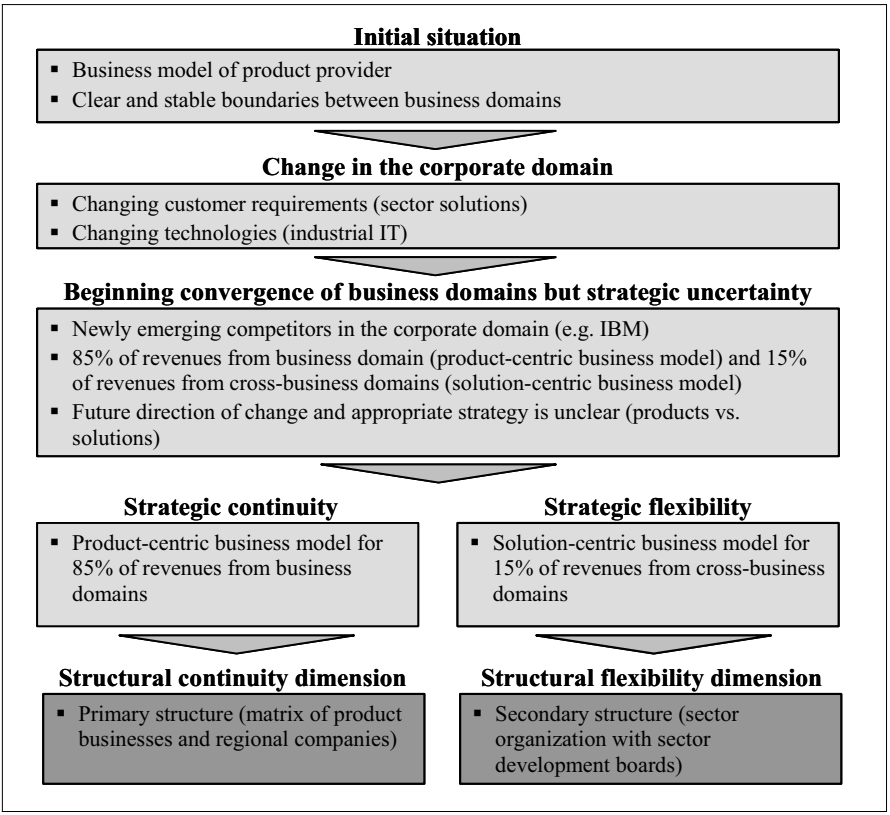
Specifically, our research suggests that MBFs may respond to converging markets in situations of strategic uncertainty by embedding real-options into their organization structure. MBFs may complement the primary corporate structure with secondary structures that focus on cross-business domains (e.g., secondary work-structures) not merely to capture current synergies but also in the anticipation of more significant future synergies between presently only broadly related businesses. This suggests, that at the corporate level, MBFs are coping with convergence by taking real options on future synergies between their businesses. These options open up the opportunity for the MBF to pursue different strategic paths depending on how it chooses to respond to the relevant competitive pressures. Thus, the generation of real options on future synergies in the context of converging markets and strategic uncertainty creates corporate-level strategic flexibility (cf. Raynor 2000b). The structural focus on cross-business domains establishes "*beachheads along an uncertain battlefront that spans multiple competitive contexts*" (Raynor 2000b: 4), which enable the firm to redefine its scope quickly in order to exploit new opportunities.

At ElectroCorp, the coevolutionary adaptive logic was the following (see figure 10-6 on the next page): Initially, ElectroCorp followed a product-centric business model and the boundaries between its business domains were clear and stable. Then, the corporate domain began to change. Customers increasingly required solutions that cut across the individual business domains. This industry trend was fueled by information technology that permitted the integration of components and led to new types of offerings. These changes led to the partial convergence of formerly separate business domains and to the rise of new corporate competitors. For instance, formerly unrelated market segments in the control systems and communication systems businesses became complementary and converged into a cross-business domain for airport solutions. However, this convergence was accompanied by significant strategic uncertainty. With 85% of the revenues and profits coming from vertical product markets, the business domain was presently the dominant source of value. Furthermore, it was and still is not clear whether solutions would prevail in the future. As a corporate manager explained:

> *"Cross-business solutions are a promising business opportunity. However, we just do not know whether an exclusive focus on solutions will be the future. Most of our customers still demand products and will quite likely do so in the future. Furthermore, you need excellent products to develop good solutions." (S3: 2)*

Thus, ElectroCorp required strategic continuity for the ongoing exploitation of the product-centric business model but at the same time strategic flexibility for the exploration of the solution-centric business model. The cross-business domains with their solution-centric business models could be regarded as 'beachheads' along an uncertain battlefront which provide ElectroCorp with a real-option to quickly redefine the corporate scope should the solution-centric business model become dominant. ElectroCorp anchored this real option in the corporate structure.

Figure 10-6: Coevolutionary adaptation from products to solutions at ElectroCorp

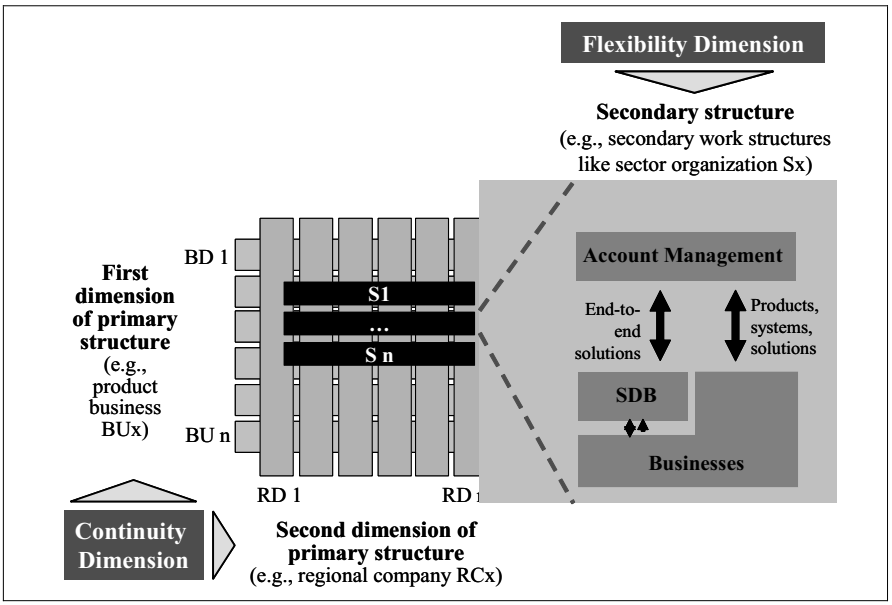


Source: author

The product-centric business model, which represented strategic continuity, was addressed by the primary matrix structure of product businesses and regional companies, which focused on business domains. The optional solution-centric business model that created strategic flexibility was addressed by the secondary structure, which consisted of the sector organization, which focused on cross-business domains.

Therefore, the novel organization form for coevolutionary adaptation of MBFs in situations of converging markets and strategic uncertainty that our study suggests consists of a 'continuity dimension' and a 'flexibility dimension'. The continuity dimension focuses organizational attention on the current, dominant business logic and on traditional market requirements (e.g., product orientation, differentiation of markets and industries) and the flexibility dimension focuses organizational attention on the new, evolving businesses logic and on new market requirements (e.g., solution orientation, convergence of markets or industries). The continuity dimension is reflected in the organization's primary structure, i.e. the grouping of activities into divisions with profit and loss responsibility. The flexibility dimension is reflected in the organization's market-focused secondary structure, i.e. the cross-business integration mechanisms without primary profit and loss responsibility such as secondary work-structures. Figure 10-7 illustrates this organization form with ElectroCorp's corporate structure.

Figure 10-7: Organization form for coevolutionary adaptation



Source: author; *BD*: product division, *RD*: regional division, *S*: sector

Such a corporate structure, which we term *real options structure*, enables an efficient coevolutionary adaptation of the MBF in the face of converging markets and strategic uncertainty. Based on this structure, the firm has three real-options to address changes in the corporate domain (see figure 10-8 on the next page): First, if the situation does not change or uncertainty prevails, the firm can wait, maintain the structural status quo, and preserve the 'solution option'. Second, if solutions dominate the corporate domain with certainty, the firm can react quickly by exercising the 'solution option' and changing to sectors as the primary structural dimension. Third, if products dominate the corporate domain with certainty, the firm can terminate the 'solution option' by dissolving the secondary structures.

Figure 10-8: Structural real-options to address changes in the corporate domain

Scenario	Action
Uncertainty prevails or balance between dimensions remains stable: ▪ Products dominate but still uncertainty about future of solutions or ▪ The balance between products and solutions remains stable	**Preserving option (waiting):** Maintaining structural status quo
Certainty with solutions dominating the corporate domain	**Exercising option (restructuring)**: Changing to sectors as primary structure
Certainty with products dominating the corporate domain	**Terminating option (dissolving)**: Dissolving secondary structures

Source: author

The motor of adaptation within this new organization form is the group of business unit general managers in the secondary decision-making structures that is responsible for the exploration of the cross-business domains. Driven by self-interest, business unit general managers reallocate resources from their business to the cross-business domain if they can earn higher returns. Thus, the forces of the market determine the allocation of resources and the (gradual) change to the new business model. If the solution-centric business model starts to dominate the corporate domain, anticipating increasing returns, the team of business unit general managers will allocate more resources to cross-business domains than to their focal business domains. At this point, the corporate management intervenes and guides the adaptation by changing to sectors as primary structure for the focal cross-business domain.

At ElectroCorp, these adaptive forces were at work. Sectors were considered to be restructured in solution-centric divisions should they reach critical mass. As a corporate manager stated:

> *"Right now sectors are just a horizontal addition to the businesses that focus on cross-business customers and solutions. Some of these sectors will survive; others will die off as they fail to attract enough business ... Some sectors may even be so successful that they will be transferred into separate divisions." (S4: 3)*

A real options structure with a primary structural continuity dimension and a secondary structural flexibility dimension seems to have four major advantages for adaptation: First, it permits the firm to generate corporate value in times of uncertainty by exploiting cross-business opportunities (e.g., growth synergies in cross-business domains). Second, it reduces inertia and enables the firm to capture corporate value by reacting quickly to changes in the corporate domain (i.e. change towards solution-centric business model). Third, the real options structure can help incumbents to sense the need for strategic and structural change early (the flexibility dimension has the function of a strategic listening post). Fourth, it sensitizes and mobilizes the organization for change by constantly reminding managers that restructuring is an option and thereby generates corporate value by easing the adaptive process.

Thus, this study suggests that future studies in coevolutionary change should explore the adaptive qualities of organizational forms more closely that combine stable primary structures with flexible secondary decision-making structures – especially in the context of strategic uncertainty and converging markets.

(5) Insights into cross-business innovations and the balance of exploration and exploitation

A final, related contribution of this study is to organizational research on innovation and ambidexterity (e.g., Nadler & Tushman 1997; Tushman & O'Reilly 1997; Henderson & Clark 1990; Wheelwright & Clark; Baldwin & Clark 2000; Ahuja & Lampert 2001; Danneels 2002; Benner & Tushman 2002, 2003; Jansen et al. 2006, Tushman et al. 2006; O'Reilly & Tushman 2007).

The adaptation and recombination of existing products or services from different businesses in ElectroCorp's sector development boards has frequently led to new products and innovative cross-business offerings. For instance, as the head of a sector development board emphasized:

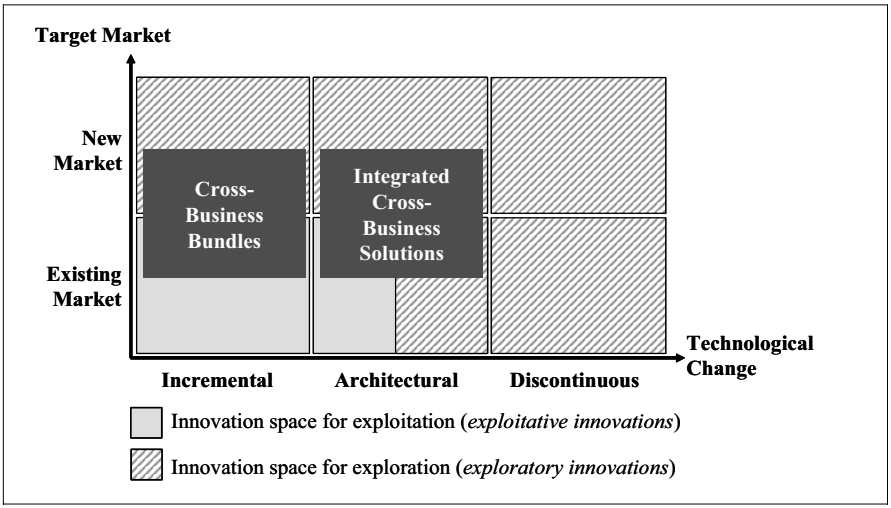
> *"The sector development board gave us a new perspective on the industry ... We understand our customers more holistically ... We are becoming more innovative. We now pursue opportunities that we have not seen before ... I would even say in the future, we might be a major driver of innovation in that sector." (S20)*

In the following, we briefly classify the innovations that we observed at ElectroCorp based on contemporary innovation literature and then highlight our contribution to the field.

Innovation literature delineates the innovation space of firms based on the two dimensions technological change and target market (Albernathy & Clark 1985; Henderson & Clark 1990; Christensen 1997 – from Tushman et. al. 2006). In other words, innovations can be differentiated based on their technical departure from existing products and/or departure from existing markets. *Incremental innovations* exploit an existing technology trajectory (Benner and Tushman 2002; Rosenkopf and Nerkar 2001), *architectural innovations* add or subtract product subsystems or change linkages between subsystems (Henderson & Clark 1990; Baldwin & Clark 2000), and *discontinuous innovations* fundamentally change the technological core of a product (Ahuja & Lampert 2001; Gatignon et al. 2002).[144] Innovations also differ in their target market. While innovations for *existing markets* involve selling to the firm's existing customer base (e.g., von Hippel 1988), innovations for *new target markets* involve customers that are distant from the focal firm's existing customers (Leonard-Barton 1995) or follow a different strategic logic (e.g., Porter 1985). The three technological change dimensions and the two market dimensions define an innovation space based on the focal firm's existing product/market choices (Tushman et al. 2006). Whereas incremental innovations for existing markets/customers are associated with exploitation, non-incremental innovations for new markets/customers (architectural and discontinuous innovations) are associated with exploration (e.g., Jansen 2006; Tushman et al. 2006; O'Reilly & Tushman 2007). Figure 10-9 (on the page) positions ElectroCorp's sector solutions in the innovation space.

[144] Please note that the description of these innovation modes and their anchoring in the literature is based on Tushman et al.'s (2006: 4) work.

Figure 10-9: Positioning of ElectroCorp's sector solutions in the innovation space



Source: author

At ElectroCorp, we observed incremental and architectural innovations. While the development of some new cross-business bundles had the character of incremental innovations, the development of technologically integrated solutions had the character of architectural innovations. Quite interestingly, these innovations contributed to exploitation as well as to exploration. While cross-business bundles are incremental innovations that originally targeted existing customers (exploitative innovations), over time, they were extended to new customer segments and became more explorative. In contrast, integrated cross-business solutions were architectural innovations that departed, at least partially, from the firm's existing technology/market origin and thus were more explorative ventures from the start.

Thus, our study provides an empirical illustration of exploitative and explorative innovations in the *cross-business* domain. More specifically, our research contributes to research on innovation in three ways:

(1) First, by providing an illustration of cross-business innovation within MBFs, this study complements the dominant focus of innovation literature on separate organizational entities such as individual business units or individual functional units (e.g., Damanpour 1991; Cardinal 2001; Jansen et al. 2006; O'Reilly and Tushman 2007).

(2) Second, our study specifies a case in which successful exploratory and exploitative innovations simultaneously evolve from the same organizational structure (dedicated secondary work-structures with initiative-based cross-business teams). Existing research on organizational designs that support exploration as well as exploitation advo-

cates, without exception, ambidextrous organizational forms that spatially separate exploratory and exploitative innovation activities (e.g., Bradach 1997; Tushman & O'Reilly 1997; Sutcliffe et al. 2000). Ambidextrous organizational forms *"are composed of multiple integrated architectures that are themselves inconsistent with each other*" (Tushman et al. 2006: 7). While an organization design for efficiency is suggested for exploitative subunits, a separate organization design for experimentation and improvisation is suggested for exploratory subunits (Tushman et al. 2006).[145] The argument is that exploratory and exploitative innovations are associated with fundamentally different task and environmental contingencies, different time-frames and search routines (Katila & Ahuja 2002), and thus require their own distinct set of roles, incentives, culture and competencies (Carroll and Teo 1996; Christensen and Bower 1996; Hill and Rothaermel 2003; Audia et al. 2000; Campbell and Park 2005 – from Tushman et al. 2006).

Our research suggests a more differentiated view of organizational forms that support the simultaneous pursuit of exploration and exploitation (see figure 10-10).

Figure 10-10: Suggestion of this study to innovation literature

Innovation literature

(e.g. Bradach 1997; Tushman & O'Reilly 1997; Sutcliffe et al. 2000; Tushman et al. 2006)

Organizations that pursue exploitation and exploration at the same time need to install ambidextrous organizational forms that **spatially separate exploitation and exploration activities** (i.e., exploitative sub-units and exploratory sub-units).

Suggestion of this study

In the case of cross-business innovations, MBFs that pursue exploitation and exploration at the same time may also benefit from **unifying organizational forms that integrate exploitation and exploration activities** (e.g., ElectroCorp's sector development boards). These unifying forms can foster the evolution of both types of innovation initiatives by facilitating cross-pollination of ideas and efficient knowledge integration.

At later points in time, when the products and business models crystallize, these innovations may be transferred into ambidextrous designs, independent business units, or spin-off designs (cf., Tushman et al. 2006).

Source: author

[145] *Designs for efficiency* are associated with tight controls, structures, culture, and disciplined processes whereas *designs for experimentation* are associated with looser controls, structures, and more flexible processes and search behaviors (Duncan 1976; Quinn and Cameron 1988; Burgelman 1991; Spender & Kessler 1995 – from Tushman et al. 2006).

Specifically our study indicates that, in the context of *rather autonomously emerging* innovations across existing businesses, a *unifying integrated organizational form* for exploratory and exploitative activities such as ElectroCorp's sector development boards may be an efficient base for the evolution of both exploratory and exploitative innovations. Such an organizational form enables the cross-pollination of ideas and the efficient integration of complementary knowledge (cf. Kogut & Zander 1995), which are preconditions for both types of innovation.

Thus, a 'central' organizational location may be advantageous for the evolution or incubation of exploitative and exploratory cross-business innovations. At later points in time, when the products and business models crystallize, these innovations may be transferred into ambidextrous designs, independent business units, or spin-off designs (cf. O'Reilly & Tushman 2007). As a corporate manager at ElectroCorp asserted:

> *"Right now sectors are just a horizontal addition to the businesses… [However], some sectors may even be so successful that they will be transferred into separate divisions." (S4: 3)*

Therefore, our study suggests further research on the exploration-exploitation debate from a cross-business perspective. In this context, a particularly fruitful area for further research could be multi-level investigations of simultaneous exploration and exploitation in MBFs that employ initiatives as the unit of analysis (cf. Marx 2004). At ElectroCorp the differentiator between exploration and exploitation seemed not to be the organization structure (secondary operating structure), from which both types of innovation originated, but the individual growth synergy initiative.[146] Thus, initiative-based research that covers the complete evolutionary cycle from initiation to selection to retention could provide some interesting insights that help to answer the grand question of whether and how firms can simultaneously pursue exploration and exploitation.

(3) Finally, and in close relation to the previous issue, this study contributes to innovation literature by suggesting a specific (hybrid) organizational design for the emergence and temporary incubation of exploratory *and* exploitative *cross-business innovations*. It thus advances current research that has so far neglected the origination and organizational antecedents of exploratory and exploitative innovations and has exclusively focused on the design of distinct organizational units for each type of innovation (e.g., Jansen 2006; Tushman et al. 2006; O'Reilly & Tushman 2007).

In particular, this study highlights the benefits of relatively autonomous decentralized secondary work-structures and corporate-level incentives for the initiation of both exploitative and exploratory innovation initiatives in the cross-business domain. Specifi-

[146] In other words, while exploitative and exploratory innovations emerged from the *same* organization structure (structure = catalyst), they were implemented within the organization by *different* kinds of initiatives (initiative = differentiator).

cally, secondary work-structures may have several characteristics that promote cross-business innovation (cf. Kogut & Zander 1995; Benner & Tushman 2003; Jansen et al. 2006; Tusman et al. 2006; O'Reilly & Tushman 2007): First, secondary work-structures create a novel, horizontal perspective on external markets (e.g., sectors) and internal resources (e.g., product and customer knowledge). Second, they focus the attention of general and middle managers on the entrepreneurial discovery and exploitation of new opportunities. Second, their formality makes existing knowledge and skills explicit and accelerates their diffusion. Third, they tightly couple the collaborating business unit, which eases the recombination and incremental adaptation of existing knowledge and skills. Finally, they provide an efficient transaction and work environment and foster dense social relations.

Thus, this study advocates an organization form for exploratory and exploitative cross-business innovation that complements an existing primary structure with a permanent sub-ordinate secondary structure, in which employees from the business units work part-time parallel to their regular jobs in the primary line organization. The secondary structure integrates several value-chain functions across businesses (notably R&D, marketing and sales), has limited profit and loss responsibility, and is governed by the team of business unit general managers with only limited influence from the corporate center. We term such an organization form a '*market-focused collateral organization*'. This organization form is a specification of Zand's (1974) well-established concept of the collateral organization, which refers to a supplemental organization whose members participate in the regular organization.

10.3 Implications for managerial practice

There are important messages for managers of MBFs in our results. The implications for managerial practice include the following:

(1) First, this study highlights growth synergies as an important source of corporate value. The conceptual arguments and empirical results of our research suggest that corporate managers should consider growth synergies across their related businesses in their corporate management agenda, specifically in times of changing markets and shifting customer requirements. In particular, our systematization and detailed discussion of strategies for achieving growth synergies (chapter 7) provides managers with a framework for identifying specific growth synergy opportunities. Furthermore, it supports corporate and business-level managers in the formulation and communication of growth synergy initiatives.

(2) Second, the key success factors for the continuous realization of growth synergies that this study inducted from empirical data (constructs in chapter 9) provide a normative basis for managers. Our results advise senior managers engaged in the realization of growth synergies to implement a selective strategic focus and establish a design of

decentralized collaboration. More specifically, we recommend corporate managers to follow an evolutionary approach of guided and balanced self-interest for the continuous realization of growth synergies. Our in-depth case study of ElectroCorp (chapter 8) and the rich descriptions of our constructs (chapter 9) provide managers with the necessary 'degree of specification' and context knowledge to execute our recommendations in their organizations.

(3) Third, this study emphasizes the importance of a corporate business model and cross-business strategies for the planned exploitation of mid-term and long-term (cross-business growth) opportunities for related diversifiers. Hence, corporate managers are advised to incorporate these concepts as vehicles for strategy making in the corporate strategy process.

(4) Fourth, our research conceptualizes secondary work-structures as an efficient and effective governance and integration mechanism for (market-focused) cross-business issues, in particular if these issues require a balance between stability (overview and efficiency) and flexibility (innovation and growth). Thus, our study offers corporate designers a novel design element for addressing such issues.

(5) Furthermore, our study generally highlights the value-adding character of the corporate center (corporate center as corporate strategist, designer, implementation manager, coach, and incubator) and particularly emphasizes the value-adding role of the center as a selectively intervening corporate entrepreneur. Therefore, our research suggests that corporate managers may successfully assume functions that go beyond the traditional ones of configuring the corporate portfolio and overseeing performance. These functions, however, should be at the intersection of value creation opportunity and corporate management capabilities and should generally not involve assuming any operative responsibilities. Consequently, our study encourages corporate executives to question the frequently advocated minimalist role of the corporate center and suggests them to assess the radical downsizing of corporate staff that consultants frequently recommend with great care.

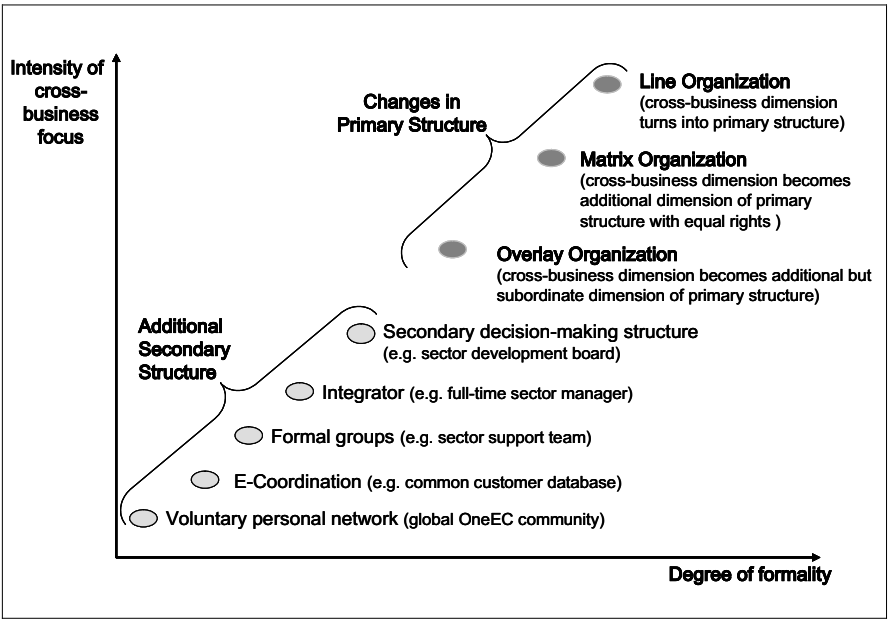
(6) Moreover, our study conceptualizes a flexible organization form for the coevolutionary adaptation of corporations when markets, technologies and/or business logics are incrementally changing (e.g., change from products to solutions). This concept may support corporate managers in designing a responsive organization in times of strategic uncertainty or converging markets.

Our research also cautions corporate managers to refrain from radical restructuring in times of strategic uncertainty and instead recommends them to let the organization incrementally evolve with the changing market. A recent statement by the head of corporate strategy at Philips regarding radical organizational restructuring reiterates this point: *"We have learnt that whenever we create a new organization, we create a new*

problem. Under the slogan 'One Philips' we have introduced a number of low-key changes [instead of once again restructuring the company], such as encouraging employees to work across different business units" (Economist 2006: 4).

(7) Finally yet importantly, our research provides practitioners with an overview of different organization design elements for addressing cross-business issues. To provide managers some normative guidance, these design elements can be systematized along the two dimensions "intensity of cross-business focus" and "degree of formality". Figure 10-11 (on the next page) classifies different elements of secondary and primary structures along these dimensions, which organization designers can employ for addressing cross-business issues.[147]

Figure 10-11: Organization design elements for addressing cross-business issues



Source: author[148]

[147] For instance, when a cross-business issue comes up, an organization designer can choose highly informal secondary structures such as encouraging voluntary personal networks to address this issue. Alternatively, he can change the primary structure of the firm by creating a new organizational dimension that focuses exclusively on the cross-business issue.

[148] Please note that while the concept and content depicted in figure 10-11 is our original work, we also drew from prior research by Galbraith & Kazanjian (1978), Goold and Campbell (2002), and Galbraith (2005) to label the design elements and determine their degree of formality.

These elements vary with regard to formality and with regard to the intensity of the cross-business focus that they create.[149] Hereby, formality and intensity increase from left to right with additional secondary structures being less formal and intense in addressing cross-business issues than changes in the primary structure of the firm. While the elements of the secondary structure are additive, the primary structures highlighted in figure 10-11 are mutually exclusive.

The weakest form of *primary structure* is an overlay organization where the cross-business dimension is an official but subordinate dimension within the primary structure ('overlay dimension'). The organizational units that form the overlay dimension report to the corporate center like regular business units but are less autonomous and accountable. Stronger forms of primary structures for concentrating on cross-business issues are the matrix organization where the cross-business dimension becomes an additional dimension of the primary structure with equal rights and the line organization where the cross-business dimensions becomes the primary structure.

The weakest forms of *secondary structures* are voluntary personal networks; the strongest forms are secondary decision-making structures. Due to their strong governance aspect, secondary decision-making structures can be seen as a specifically flexible intermediary form between secondary and primary structures.

As a general design rule, organizational designers are recommended to align the level of formality with the required intensity of the cross-business focus. The right fit between intensity and formality is important: Whereas a design that is not formal enough is inefficient because it does not create the required level of organizational attention, an overly formal design is suboptimal because it leads to unnecessary increases in costs and reductions in flexibility.

To illustrate: ElectroCorp followed this alignment between intensity and formality. Continuous growth synergy realization and the emerging solution-centric business model in the corporate domain required a relatively strong cross-business focus. Thus, ElectroCorp's corporate managers added a sector organization that consists of several elements of secondary structure ranging from voluntary personal networks (e.g., global OneEC community) over integrators (e.g., full-time sector managers) to secondary decision-making structures (e.g., sector development board). Depending on the amount of business that individual sectors attract, corporate managers increase the cross-business focus by incorporating selected sectors into solution-centric divisions (line organization). Should solutions become the dominant business model in the corporate domain, ElectroCorp may eventually shift to sectors as the central dimension of the

[149] Most of these elements have been explored throughout our case study of ElectroCorp; additional elements of primary structure have been added to provide a complete picture. We observed these elements of primary structure during our exploratory work at IBM, ABB and GE.

primary structure, like the global software and consulting firm IBM has done recently.

10.4 Limitations

Based on the empirical results of our study, we tried to develop generalizable and higher level theoretical findings. However, our dissertation encounters several limitations concerning theory and empirical study. In the following paragraphs, we will outline and discuss these limitations.

(1) First, the methodology that we applied to investigate continuous growth synergy realization has some weaknesses regarding the generalizability of our findings. For reasons explained in chapter 6, we employed a longitudinal single case study approach based on 68 in-depth interviews. This methodological choice seemed suitable since the phenomenon under investigation was novel and complex, and thus required longitudinal in-depth observation of rich and holistic data (Eisenhardt 1989; Miles & Huberman 1994; Yin 1994; Siggelkow 2007). While affirming the choice of this qualitative approach, we recognize that the generalizability of our findings is difficult. Especially the theoretical findings and propositions presented in chapter 9 are bound to the specific context of our case (most importantly: moderate environmental dynamism, large-size organization with a complex organizational structure, and businesses with a rather low degree of relatedness; see chapter 10.1.1). Further firm-specific factors of our research site (e.g., company history) may also limit generalizability of our findings. While comparisons with established theories and the existing literature as well as the confirmation of our results by external experts suggest that our findings are at least partially generalizable, comparative case studies would certainly help to better ground evolving theories. Furthermore, in a second step, quantitative research designs would be useful to empirically test the findings and establish reliable theories.

(2) Second, the single case study approach that this study employed does not permit uncovering significance and weightings of success factors for continuous growth synergy realization. For instance, we cannot attribute any relative importance to strategic concept and organization design factors for the continuous realization of growth synergies. Furthermore, while we are confident that we identified key success factors of continuous growth synergy realization, we cannot reliably determine their significance (i.e. relevance). Such insights are the domain of quantitative research approaches that employ techniques like deductive methods, random sampling, and pooled statistical logic. Thus, like the limitation of generalizability, this reiterates the necessity for quantitative follow-up studies.

(3) Third, this research is limited by subjective interpretations of the data, in particular, during the data analysis phase of this study, which led to the derivation of the constructs presented in chapter 9. We have tried to reduce subjective biases in three ways: First, a fellow researcher who had intimate knowledge of the case company reviewed

our codes (Yin 1994). Second, our key informants confirmed our results (Mayring 1996). Third, we followed the data analysis rules of grounded theorizing by Strauss & Corbin (1990, 1996). Nevertheless, our research still bears the risks of subjective and invalid interpretations of quotations.

(4) Fourth, while we used several measures to ensure that growth synergies were successfully realized during our longitudinal investigation (average informant's ratings, qualitative performance assessments, and financial/market results), the time-span of 2.5 years may be too short to assess continuous growth synergy realization or to capture all relevant success factors. It is possible that additional important success factors would emerge during a longer period of investigation (e.g., adaptability of strategic concept and organization design). However, longer-term observations were beyond the scope of this study.

(5) Fifth, the holistic and multi-faceted research design employed in this study (investigation of strategic concept, organization design, and corporate management) bears some limitations regarding theory building. While the research design reflects the complex nature of the phenomenon under investigation, it also restricted the development of a coherent theory (cf. Miles and Huberman 1994). However, real world phenomena in general tend to be too complex to strive for simple cause-and-effect relations or black-and-white recommendations. Thus, while this study can only offer a mid-range theory of continuous growth synergy realization, it develops thought-provoking impulses and new perspectives that can inspire creative theorizing in the future.

(6) Finally, our selection of variables may not be complete. We focused our analysis on firm-level factors of growth synergy realization (strategic concept and organization design) and neglected several factors on the level of the initiative and the individual (e.g., leadership skills and style of cross-business managers, enthusiasm and personal initiative, and the role of embededdness in intra-company networks). However, such initiative- and personal-level factors may have an impact on successful cross-business collaboration (cf. Martin 2002; Martin & Eisenhardt 2005) and thus on the continuous realization of growth synergies. Thus, we suggest that further research is required to develop the mid-range theory that this study inducted into a more holistic theory on continuous growth synergy realization.

10.5 Directions for future research

In the previous sections, we discussed our study's contribution to theory and to managerial practice as well as its inevitable limitations. While our discussion suggests several avenues for future research, in this chapter, we only elaborate those that are closest to our research objective, i.e. the exploration of continuous growth synergy realization. Specifically, we suggest three fruitful avenues for future research:

(1) Methodological and empirical extension of study

Naturally, the single case study design employed for this dissertation requires further empirical proof. For this reason, we think that comparative longitudinal case studies within and across industries would help to deepen our understanding and add empirical evidence. Additionally, large sample, quantitative studies could empirically test the constructs that we inducted from our single in-depth case study.[150] Both types of studies would help to verify and enhance our mid-range theory of continuous growth synergy realization.

Furthermore, future research could extend the boundary conditions of our mid-range theory. For instance, future studies could explore continuous growth synergy realization in (1) markets with different degrees of environmental dynamism (stable, moderately dynamic, highly dynamic), (2) MBFs with different degrees of relatedness (focused, closely related, and broadly related), (3) MBFs of different sizes (small, medium, large), and (4) MBFs with different degrees of structural complexity (divisional, matrix, tensor organization).

Finally, establishing a more socialized view of continuous growth synergy realization by concentrating on initiative and the individual levels of analysis (e.g., lateral leadership skills of cross-business managers and role of embeddedness of cross-business managers in intra-company networks) could be a fruitful direction for future research.[151]

(2) Growth vs. Efficiency Synergies

The empirical investigation of this study focused exclusively on growth synergies. However, many firms realize growth synergies vis-à-vis efficiency synergies (Müller-Stewens & Knoll 2006). Thus, research that compares the simultaneous realization of growth and efficiency synergies in MBFs could generate interesting insights. We suggest two fruitful avenues for further research:

First, studies could explore contingency factors that moderate the relationship between the relative importance of growth synergy realization compared to efficiency synergy realization within the MBF and corporate performance. Possible contingency factors could be industry affiliation, environmental dynamism, type of corporate and business strategy, and corporate management style.

Second, researchers could more closely investigate the internal organizational ar-

[150] These quantitative studies need to develop and employ new direct or indirect measures for growth synergies (e.g., measures based on growth synergies or measures based on cross-business resource complementarities).

[151] While the focus of this study did not permit us to elaborate a more socialized view of continuous growth synergy realization, our data indicated that social factors had an impact, in particular, the leadership qualities of sector managers, account manages and sector heads.

rangements of MBFs that simultaneously realize growth and efficiency synergies. Studies could test, for instance, whether the relationship between the relative importance of growth synergy realization as compared to efficiency synergy realization within the MBF and corporate performance is moderated by organization design. The organization design variable(s) in these studies could be based on the classification of stable mechanistic designs, hybrid stable-flexible designs, and flexible organic designs that we proposed in chapter 10.1.2.[152]

(3) Integrated theoretical basis for cross-business strategy and organization in MBFs

A final direction for future research that this study suggests is empirical and theoretical work towards the development of an integrated theoretical basis for strategic and organizational *cross-business* issues within MBFs. While this study makes a first contribution to such an integrated theory by developing a mid-range theory for continuous growth synergy realization (strategy: growth synergies; organization; permanent but flexible cross-business collaborations), additional research that provides an overarching integrated theoretical basis is necessary.

Specifically, strengthening our understanding of how existing 'grand theories' in strategy and organization design interact to explain value creation at the level of the corporation remains a major challenge for future research. This calls for studies that are not fixed on one theory (e.g., transaction cost theory) but explore the generation of corporate value from multiple theoretical lenses (cf. Santos & Eisenhardt 2005). Our study of growth synergy realization suggests that studies at the intersection of transaction cost theory, the resourced-based view, and the converging theories of dynamic capabilities and coevolutionary theory may be a fruitful starting point for research in this direction.

[152] *Stable mechanistic designs* consist of cooperative design elements (centralization, weak non-financial controls, corporate-level incentives, strong integration mechanisms), hybrid stable-flexible designs consist of cooperative and competitive design elements (decentralization, strong financial controls, corporate-level incentives, strong integration mechanisms), and *flexible organic designs* consist of competitive design elements (decentralization, strong financial controls, business-level incentives, loose coupling). See chapter 10.1.2 for a more detailed discussion of these designs.

PART III: CONCLUSION

This study investigates the creation of corporate value in MBFs through a dedicated research perspective on cross-business synergies. Specifically, this work explores two issues: First, the types of cross-business synergies that MBFs can realize and second, how MBFs continuously realize growth synergies. The rationale is that research in strategy and organization has emphasized the sources of potential synergies but has paid little attention to systematizing them. Furthermore, while research has focused on synergies from cost-subadditivities (efficiency synergies), it has neglected the realization of value enhancing revenue super-additivities (growth synergies), particularly in the context of permanent collaborations between businesses.

There are several major findings. First, this study develops a resource-based typology of cross-business synergies that comprises four types of synergy and relates them to corporate advantage: operative synergies, market power synergies, financial synergies, and corporate management synergies. In particular, this research conceptualizes and illustrates two kinds of cross-business synergies which are new to the literature: Growth synergies, which are profitable growth advantages of MBFs from recombining complementary operative resources across businesses, and corporate management synergies, which are performance advantages of MBFs from leveraging corporate management capabilities across their businesses.

Second, this study inducts a mid-range theory of continuous growth synergy realization from a longitudinal in-depth single case study. Continuous growth synergy realization is associated with a strategic concept that establishes a selective focus on specific growth synergy opportunities, an organization design that fosters decentralized collaboration and motivates productive business unit self-interest, and an evolutionary corporate management approach that guides and balances this business unit self-interest.

Third, this study specifies a novel type of governance and integration mechanism for related diversified MBFs, the secondary work-structure. Specifically, this research suggests formal cross-business boards and teams for the governance of cross-business issues in which general and middle managers from different business units can engage in joint decision-making without any direct involvement of the corporate center.

The primary contribution of this study is new insight into the nature of the corporate effect (cf. Bowman & Helfat 2001) through the clarification and conceptualization of types of cross-business synergies and through the empirical induction of strategic and organizational success factors for the continuous realization of growth synergies. Furthermore, our research contributes to extending scholarly thinking beyond the efficiency-oriented view of corporate strategy, in which corporate value is achieved by pursuing cost sub-additivities and economizing attention across businesses (e.g., Wil-

liamson 1975, Chandler 1962; 1985; Bettis 1991; Palepu 1985) to a growth-oriented view of corporate strategy in which corporate value is achieved by pursuing valuable revenue super-additivities. Additionally, our research offers a fresh perspective on the corporate strategy-structure choice of related diversifiers by suggesting a novel organization design that is based on productive business unit self-interest and cooperative-competitive organizational arrangements.

At a more fundamental level, by providing insights into strategies and designs that lead to the successful recombination of resources across businesses (i.e. growth synergy realization), this dissertation advances emerging research on a recombinative rationale of the M-form (Martin 2002; Eisenhardt & Martin 2005), dynamic capabilities (Teece et al. 1997; Eisenhardt & Martin 2000), coevolutionary change (Koza & Lewin 1998; Lewin et al. 1999), and cross-business innovation (cf. Tushman et al. 2006; O'Reilly and Tushman 2007). We believe that this dissertation establishes an interesting and under-explored perspective on strategy and organization in the MBF and hope that some of our findings will be advanced by future research.

Appendices

Appendix I: Selected questionnaire items of exploratory survey

Appendix II: Interview guide

Appendix III: Exploratory interviews

Appendix IV: Exploratory observations

Appendix V: In-depth case study (ElectroCorp): Interviews

Appendix VI: In-depth case study (ElectroCorp): Feedback meetings

Appendix VII: In-depth case study (ElectroCorp): Observations

Appendix VIII: In-depth case study (ElectroCorp): Documents and presentations

Appendix I: Selected questionnaire items of exploratory survey (translated from German language)

This appendix presents selected questionnaire items of our explorative survey, which we used to substantiate our exploratory work in chapter 7 (strategies for growth synergies). A complete version of the questionnaire and a dedicated report of the results can be obtained from the author (see also Müller-Stewens & Knoll 2006 for a summary of some of the further findings of our exploratory work).

Exploratory Survey Questions:

1. **Are you collaborating across your businesses to realize cross-business synergies?** (Possible answers: Yes, intensely; Yes, frequently; Yes but rarely; No, not at all)

2. **How important will cross-business collaboration be for your company within the next five years?** (0-5 importance rating with 0 = not important; 3= moderately important and 5 = highly important)

3. **What motivates cross-business collaboration at your company?** (0-5 importance rating with 0 = not important; 3= moderately important and 5 = highly important in the two categories "current" and "future" for the following items)

   - **Increasing Efficiency**
   - **Increasing Growth**
   - **Capital Market Pressures**
   - **Integrated Corporate Business Models** (e.g., integrated solution provider)
   - **Customer Requirements** (e.g., one-face to the customers)
   - **Use of knowledge and other important resources such as …** (blank to be filled in by respondent)

4. **What are the strategies of your company for achieving cross-business growth?** (The following four strategies were briefly described in the survey. Respondents could indicate, which strategy or strategies they already pursued or planned to pursue in the future. The strategies had been inducted prior to the survey from exploratory interviews and outside-in analysis of the corporate strategy of 15 MBFs)

   - **Joint Market Penetration**
   - **Joint Offering Development**
   - **Joint Market Development**
   - **Joint Diversification**

Please note that the original survey contained several other items such as questions

regarding (1) the success of cross-business collaboration, (2) company-specific factors that influence cross-business collaboration (e.g., degree of autonomy of business units, internal competition between business units, controlling of businesses, incentives of general managers), (3) cross-business collaboration initiatives in specific value chain activities (e.g., marketing, R&D, production, sales), (4) organizational mechanisms for the realization of cross-business synergies (e.g., structures, coordination mechanisms, incentives, corporate center activities), and (5) factors of success and failure of cross-business collaborations.

Appendix II: Interview guide (translated from German language)

This appendix presents our interview guide. Please note that this interview guide represents the exhaustive *pool of questions* that we used during our 2.5 year long in-depth investigation of continuous growth synergy realization at ElectroCorp. The guides for specific interviews only contained a selection of these questions (14-18 questions). The only set of questions that we consistently asked were the questions regarding the success of OneEC (outcome) and regarding the central success factors (see section 6 termed 'success' below).

1. Context

1.1 Personal Context

Please briefly describe what your professional background is:

- What is your current job? How does it relate to the OneEC initiative? Who do you report to?
- Which informal intra-firm networks would you describe as crucial for your job? (*Probes: Key people, functions, role(s) in network, routine cross-business interactions?*)
- What types of positions have you held?
- What did you do prior to joining ElectroCorp?

1.2 Strategic Context

(The following questions were only asked selected corporate managers, business unit general managers, and business unit middle managers)

1.2.1 How would you define the segment of the industry in which you compete?

1.2.2 What is the level of competition in your industry?

1.2.3 What is the rate of change in your industry? (*Probes*: v*olatility of net sales and income, change of marketing practices to keep up with markets and competitors, rate of obsolesce of products and services, ability to forecast demands of customers, rate of change in the modes of production and services, predictability of competitor actions*)

1.2.4 Could you briefly describe your firm's corporate strategy and the key strategic challenges that ElectroCorp faces?

1.2.5 Could you briefly describe your competitive strategy and the key strategic challenges that your business faces?

1.2.6 Which other firms would you identify as your major competitors?

1.2.6 How would you compare yourself to these competitors? What are major differences (strategy, organization, management)? In comparison, what are your strengths and weaknesses?

1.3 Cultural Context

1.3.1 How would you describe the culture of your firm? (*Probes: competitive, collaborative, hostile, bureaucratic, high-performance, meritocracy*)

1.3.2 Do you feel that you have a strong corporate culture (in comparison to your business-specific culture)? (Prompts: What constitutes a strong/weak culture? Do you identify strongly with ElectroCorp as a whole?)

1.3.2 Could you briefly name the two most important values of ElectroCorp (and your business)?

1.3.3 How strictly are the corporate values enforced at ElectroCorp?

2. History

2.1 Could you briefly describe the historical development of the OneEC initiative?

- What was the motivation for OneEC?
- Who initiated it? Who designed the concept?
- Who was involved (corporate/businesses)? Who drove the process?
- Was there opposition? Why? Who opposed?

2.2 Could you briefly describe the historical development of your department and function in the context of OneEC? (*Prompts: Who initiated it when and for what reason? Were there any major changes in the function/job profile? Why?*)

3. Strategic Concept

3.1 Could you briefly describe the strategic objectives and strategic concept of OneEC? (*Probes: Rationale, source of corporate advantage, differentiation from competitors, long-term vs. short-term goals*)

3.2 Specifically, how do you achieve profitable cross-business growth (i.e. growth synergies)?

- What are the sources of cross-business synergy?
- What are specific cross-business growth strategies?
- How do these strategies contribute to corporate advantage?

3.3 From a strategic point of view, what would you describe as the key success factors of OneEC?

3.4 In conclusion: What would you do differently? What do you wish others had done differently?

4. Organization Design

4.1 Questions regarding overall approach

4.1.1 Could you explain how cross-business coordination is achieved under the OneEC approach?

4.1.2 What is the organizational concept for executing the OneEC initiative? What is the organizational blueprint?

- What mechanisms are put in place to coordinate the business unit activities (e.g., permanent teams, task forces, integration managers)?
- How is cross-business coordination funded?
- How are these mechanisms staffed (job profiles of participants, part-time/full-time resources)
- What are general roles and responsibilities of the different key actors and organization entities involved in OneEC?
- What are the P&L responsibilities, incentives, reporting relationships and accountabilities?
- What are the key cross-business processes and IT systems?

4.1.3 Which organizational alignments has the OneEC initiative triggered?[153] *(Probes: changes in structures, corporate-level and business-level processes, governance channels, resource allocation, IT systems incentives, values/culture, human resources)*

4.1.4 From an organization design point of view, what would you describe as the key success factors for achieving cross-business coordination and reaching the goals of OneEC? What are the major barriers to cross-business coordination?

4.1.5 How well is the 'OneEC organization design' working? (ask for 0-10 performance rating with 0 = not successful; 5 = moderately successful and 10 = highly successful)

4.1.6 In conclusion: What would you do differently? What do you wish others had done differently?

[153] Note that this question was deliberately overlapping with question 4.1.2. In particular, we tried to capture less formal changes in organization design such as corporate culture and informal social structures.

4.2 Questions for individual organizational entities involved in OneEC (e.g., Sector Development Board, Sector Support Team, Integration Managers)

4.2.1 What are the roles, responsibilities, and reporting relationships of your department/function/team (in general and with regard to cross-business coordination/OneEC)?

4.2.2 Could you provide an operative example of your involvement in cross-business coordination?

4.2.3 How is your department/function/team staffed and how often do you meet? *(Probes: number of people, job descriptions and skill profiles, part-time/full-time resource, internal/external hires, selection criteria)*

4.2.4 Are there any specific incentives for your department/function/team? Who prescribed these incentives?

4.2.5 What is the relationship of your department/function/team with other entities that are involved in cross-business coordination?

4.2.6 How is the motivation of your employees to engage in cross-business collaboration? How would you rate the 'cross-business coordination performance' of your department/function/team? (ask for 0-10 performance rating with 0 = not successful, 5 = moderately successful, and 10 = highly successful)

4.2.7 What would you describe as the key success factors of cross-business collaboration at ElectroCorp, in particular with regard to your department/function/team?

4.2.8 How well is the design of your department/function/team working? (ask for 0-10 performance rating with 0 = not successful, 5 = moderately successful, and 10 = highly successful)

4.2.8 In conclusion: What would you do differently? What do you wish others had done differently?

5. Corporate Center

5.1 Questions for corporate-level managers

5.1.1 What would you describe as the role of the corporate center in OneEC? Specifically, how does the corporate center add value in cross-business coordination?

5.1.2 Which mechanisms are you employing to facilitate (stimulate/enhance) cross-business coordination and how are you supporting OneEC?

5.1.3 Do you feel that corporate center involvement is appreciated by the businesses?

5.1.4 What constitutes successful corporate center involvement in the context of cross-business coordination? What are major barriers/failures?

5.1.5 How well is the corporate management approach regarding OneEC working? (ask for 0-10 performance rating with 0 = not successful, 5 = moderately successful, and 10 = highly successful)

5.1.6 In conclusion: What would you do differently? What do you wish others had done differently?

5.2 Questions for business level managers

5.2.1 What is the role of the corporate center in OneEC? How does the corporate center support your cross-business work?

5.2.2 How do you evaluate the role of the corporate center in the context of OneEC? Is the center involvement helpful or rather disturbing?

5.2.3 What would you do differently? Where do you see potential for improvement?

6. Success

6.2.1 How do you rate the overall performance of OneEC (initiative and ongoing line operation)? (ask for 0-10 performance rating with 0 = not successful, 5 = moderately successful, and 10 = highly successful)

6.2.2 What was the increase in cross-business sales and profits once your implemented OneEC?

6.2.3 Overall, what do you think are the major success factors of cross-business collaboration and growth synergy realization at ElectroCorp (i.e. success factors of OneEC)?

6.2.4 Overall, what do you think are the major barriers of cross-business collaboration and growth synergy realization at ElectroCorp?

6.2.5 Does cross-business collaboration lead to reduced attention to vertical business issues and/or negative operational disruptions?

6.2.6 What would you do differently? What do you wish others had done differently?

6.2.7 What are your expectations for the future regarding OneEC? Why?

7. Closing

7.1 Are their important issues I did not cover during our interview?

7.2 Are there further people I should interview?

Appendix III: Exploratory interviews

This appendix contains the list of our exploratory interviews. We conducted these interviews to scope the filed and provide an initial definition of the phenomenon to be explored (i.e. the continuous realization of growth synergies). Furthermore, these interviews served to induct and illustrate our framework of growth synergy strategies in chapter 7.

Please note that the interviews that are marked with an 'E' in the comment field have been conducted by external researchers under close supervision of the author (mainly in the context of master theses).

Part 1: Exploratory Interviews with Consulting Companies

Interview N°	Firm	Interview Partner	Date	Comment
E1	Booz Allen Hamilton	Vice-President	September 2005 December 2006	
E2	Monitor	Partner	April 2005	
E3	Monitor	Consultant	October 2005	E
E4	Bain & Company	Consultant	October 2003	
E5	Bain & Company	Manager	October 2005	E
E6	Corporate Value Associates	Consultant	October 2005	E
E7	Earnst & Young	Senior Manager, Transaction Advisory Services	October 2005	E
E8	McKinsey & Company	Senior Associate	April 2004	
E9	McKinsey & Company	Associate Principal	October 2005	E
E10	PWC	Manager, Strategy Advisory	October 2005	E
E11	Roland Berger	Senior Consultant	October 2005	
E12	BCG	Vice President	November 2005	

Part 2: Exploratory Interviews with MBFs

Inter-view N°	Firm	Interview Partner	Date	Comment
E13	W.E.T.	CEO	January 2004	
E14	Volvo	CEO, Volvo Technology Corporation	February 2004	E
E15	Volvo	Director of Group Business Development	February 2004	E
E16	Volvo	Vice-President Business Intelligence	February 2004	E
E17	Volvo	Vice-President, Industrial Solutions	February 2004	E
E18	Allianz	Corporate Controller	August 2004	
E19	Zurich Finan-cials	Manager	November 2004	
E20	Microsoft Deutschland	Product Manager	December 2004	
E21	Clariant	Head of R&D	February 2004	E
E22	Clariant	Knowledge Management Coordinator	February 2004	E
E23	ABB	Senior Consultant, Internal Consulting Unit	December 2004	
E24	ABB	Head of Corporate strategy	November 2005	
E25	ABB	Head of Corporate strategy (follow up)	November 2005	
E26	GE	CEO, GE Asset Management	June 2004	
E27	GE	Corporate Manager	June 2005	
E28	GE	Manager, GE Appliances USA	September 2005	
E29	GE	CEO, GE Money CH	November 2005	
E30	GE	Head of HR, GE Money CH	November 2005	
E31	GE	Manager, GE Money CH	November 2005	
E32	UBS	Manager, Asset Management Division	December 2004	
E33	UBS	Member of Executive Board, Private Wealth Management Division	August 2005	
E34	UBS	Executive Director	August 2005	

Part 2 continued: Exploratory Interviews with MBFs

Inter-view N°	Firm	Interview Partner	Date	Comment
E35	UBS	Head Brand Management	November 2006	
E36	Novartis	Head of Corporate Strategy	March 2004	
E37	Swisscom	Head of Business Steering	February 2005	E
E38	Alstom	Manager, Corporate Strategy	August 2006	
E39	VW	Corporate Controller	November 2004	
E40	Deutsche Bank	Head of Corporate Strategy	June 2005	
E41	Helvetia	Manager, Corporate Strategy	October 2006	
E42	Helvetia	Country Manager	November 2006	
E43	IBM	Business Operations Manager CH	May 2006	E
E44	IBM	Chief Financial Officer (CFO) CH	May 2006	E
E45	IBM	Key Account Manager CH	May 2006	E
E46	Philips	Manager Europe	May 2005	
E47	Philips	Manager, Corporate Strategy	May 2005	
E48	DT AG	Manager, T-Systems	April 2005	
E49	DT AG	Manager, T-Systems	December 2005	
E50	Tchibo Hold-ing	Head of Corporate HR	October 2006	
E51	Beiersdorf AG	Product Manager	February 2004	

Appendix IV: Exploratory observations (presentations and meetings that provided insights for exploratory work)

N°	Date	Description
EO 1	May 2004	Annual Euram Conference, Scotland
EO 2	June 2005	1. CORE workshop, St. Gallen
EO 3	October 2006	Annual SMS Conference 2006, Vienna
EO 4	November 2006	Workshop, Value Chain Forum 2006, Friedrichshafen

Appendix V: In-depth case study (ElectroCorp): Interviews

This chapter contains the list of interviews for our longitudinal in-depth case study of continuous growth synergy realization at ElectroCorp.

Please note that the interviews marked with a "T" in the comment field are telephone interviews. All other interviews are on-site interviews.

Part 1: Interviews with members of OneEC initiative and sector organization

In-dex	Interview Partner	N°	Date	Com-ment
1	Head of Corporate Strategy	S1	November 2004	
2	Head of OneEC	S2: 1	April 2005	
3		S2: 2	September 2006	
4	Co-Head of OneEC	S3: 1	April 2005	
5		S3: 2	September 2005	
6	Manager, OneEC, Corporate Account Management and Sector Development	S4: 1	June 2005	
7		S4: 2	March 2006	
8		S4: 3	October 2006	
9		S4: 4	January 2007	T
10		S4: 5	February 2007	T
11		S4: 6	March 2007	T
12		S4: 7	March 2007	T
13	Manager, OneEC, Marketing & Communication	S5: 1	April 2005	
14		S5: 2	September 2006	T
15		S5: 3	October 2006	T
16	Manager, OneEC, Support of Regional Companies	S6: 1	December 2006	T
17		S6: 2	February 2007	T
18	Manager, OneEC, Account Management System	S7	September 2005	
19	Manager, Corporate Account Management	S8	May 2005	
20	Head of Sector Development Board ‘Poseidon’	S9	May 2005	
21	Head of Sector Development Board ‘Zeus’	S10	September 2005	

Part 1 continued

In-dex	Interview Partner	N°	Date	Com-ment
22	Head of Sector Support Team ‘Poseidon’	S11	November 2005	
23	Project Member, Sector Support Team ‘Apollon’	S12	August 2005	
24	Head of OneEC, Regional Company Norway	S13	September 2005	

Part 2: Interviews with members of corporate organization design department

Inter-view	Interview Partner	N°	Date	Com-ment
25	Head of Corporate Organization	S14: 1	January 2005	
26		S14: 2	February 2005	
27		S14: 3	April 2005	
28		S14: 4	July 2005	
29		S14: 5	November 2005	
30		S14: 6	April 2006	
31	Manager, Corporate Organization A	S15: 1	February 2005	
32		S15: 2	April 2005	
33		S15: 3	July 2005	
34		S15: 4	November 2005	
35		S15: 5	April 2006	
36		S15: 6	September 2006	T
37		S15: 7	February 2007	T
38		S15: 8	March 2007	
39	Manager, Corporate Organization B	S16: 1	February 2005	
40		S16: 2	November 2005	
41		S16: 3	April 2006	
42		S16: 4	June 2006	T

Part 3: Interviews with members of further corporate-level functions

Inter-view	Interview Partner	N°	Date	Com-ment
43	Head of Corporate Portfolio Management	S17	February 2005	
44	Manager, Corporate Portfolio Management	S18	April 2005	
45	Head of Corporate Program Development	S19	April 2006	
46	Manager, Corporate Strategy	S20	October 2006	
47	Head of Corporate Initiatives	S21	June 2006	
48	Head of Strategic Planning, Corporate Technology Unit	S22: 1	August 2005	
49		S22: 2	November 2005	
50		S22: 3	September 2006	
51	Head of Corporate Innovation Management	S23: 1	November 2005	
52		S23: 2	October 2006	
53	Corporate Manager, Business Strategies	S24	August 2005	
54	Manager, Central IT Unit	S25	June 2006	
55	Head of Corporate Market Intelligence	S26: 1	September 2005	
56		S26: 2	June 2006	
57		S26: 3	September 2006	
58	Manager, Corporate Market Intelligence	S27	September 2006	
59	Senior Consultant, Internal Consulting Unit	S28	October 2005	
60	Consultant, Internal Consulting Unit	S29: 1	April 2006	
61		S29: 2	April 2006	

Part 4: Interviews with members of further business-level functions

Inter-view	Interview Partner	N°	Date	Com-ment
62	Business Segment Head	S30	August 2005	
63	Manager, Regional Company	S31	November 2005	
64	Manager Regional Company	S32	February 2006	
65	Strategic Marketing Manager, Business Unit	S33	June 2006	
66	Program Head Customer Focus Initiative, Business Unit	S34: 1	December 2005	T
67		S35: 2	December 2005	
68		S34: 3	January 2006	T

Appendix VI: In-depth case study (ElectroCorp): Feedback meetings with corporate managers

N°	Date	Attendees
M1	July 2005	▪ Head and of corporate organization design ▪ Co-head of OneEC initiative ▪ Head of strategic planning of corporate technology unit ▪ Head of corporate market intelligence ▪ Corporate Managers, Corporate organization design ▪ Corporate Managers, Corporate strategy ▪ Corporate Managers, Regional sector projects
M2	April 2006	▪ Head of corporate organization ▪ Co-head of OneEC initiative ▪ Head of portfolio development ▪ Head of corporate program management ▪ Managers, Corporate organizational design

Appendix VII: In-depth case study (ElectroCorp): Observations of members of case company at presentations and meetings

N°	Date	Description
O1	June 2004	Presentation on corporate strategy at university course session (by member of executive board)
O2	June 2005	Presentation on cross-business collaboration at academic practitioner workshop (by head of corporate organization)
O3	December 2005	Presentation and dinner speeches for key customers of the Poseidon sector
O4	October 2006	Presentation on corporate growth at academic conference (by head of corporate strategy)
O5	February 2007	Presentation on OneEC Initiative at university course session (by head of OneEC initiative)

Appendix VIII: In-depth case study (ElectroCorp): Case company documents and presentations

N°	Date	Title (disguised)
P1	2004	Account Management at ElectroCorp
P2	2004	Sector Development at ElectroCorp
P3	2004	Business Competence Centers
P4	2005	One EC Message Framework
P5	2006	Corporate Strategy at ElectroCorp, public presentation
P6	2006	The OneEC way to business excellence
P7	2006	OneEC in the regions
P8	2006	Cross-business incentives
P9	2007	The One EC Initiative

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