

Eva Bilhuber Galli

# **Building Social Capital in a Multibusiness Firm**

Lessons from a Case Study



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**RESEARCH**

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# 1 Introduction

For a company today, a convincing firm strategy as such is not a sufficient precondition for success. Turning strategy into reality is itself increasingly considered to be a source of competitive advantage (Barney, 2001; Govindarajan, 1988; Priem, 2001; Tsai & Ghoshal, 1998). Successfully driving the strategy realization process is particularly challenging for multibusiness firms as their growth and profitability potential lies not only vertically within one business unit but in collaboration and coordination activities across businesses as well (Goold, Campbell, & Alexander, 1994). It is increasingly recognized today that realizing cross-business value creation is the rationale for the existence of a diversified firm (Goold & Campbell, 1998a, 2000). A multibusiness firm which is not capable of realizing value creation across its businesses will face increasing pressure from financial investors to abandon one of its businesses (Müller-Stewens & Knoll, 2005a).

Despite the pursuit of cross-business value creation as the underpinning logic of multibusiness firms, relatively little is known on how cross-business synergy potentials are de facto realized (Martin & Eisenhardt, 2001, 2003). The strategy, the diversification degree and the organizational structure as such cannot fully explain performance differences among multibusiness firms. What seems to be clear, though, is that the realization of intended cross-business growth and profitability potential is not a trivial matter. Particularly in today's economy, where corporate advantage is rooted increasingly in the human, social and intellectual capital of a firm (e.g. Dess et al., 2003), cross-business collaboration becomes a central vehicle for multibusiness firms to assemble, deploy and leverage these types of capital for creating growth opportunities and competitive advantage.

However, competition, rather than collaboration, will occur when there is a lack of aligned strategic orientation, shared values and a climate of trust (Burgelman & Doz, 2001; Ghoshal & Bartlett, 1996; Tsai, 2002). Particular leadership capabilities are necessary throughout the entire organization to enhance trust and collaboration between the units and to balance the different and mostly conflicting interests. One of those capabilities, entrepreneurship, is also required to effectively realize growth potentials (Burgelman et al., 2001; Goold et al., 1998a; Goold, Campbell, & Alexander, 1998b). Finding managers who embody all of these capabilities will be difficult. As these capabilities are firm-specific in nature, they need to be developed within the specific organizational context (Burgelman et al., 2001; Müller-Stewens & Knoll, 2005b). By setting adequate organizational and procedural arrangements, the role of corporate management is seen as being indirect in nature, enabling the respective collaboration

culture and leadership capabilities throughout the organization (Bowman & Helfat, 2001; Goold et al., 1998a; Müller-Stewens et al., 2005b). Thus, leadership development is regarded as a central means for a corporate management to enable the relevant collaborative culture and leadership capabilities for a corporate strategy to be successfully realized. This is reflected in a continuous flow of high level investments in the leadership development of large firms across all industries the world over (PriceWaterhouseCoopers, 2006). However, as the return on these investments remains puzzling, the lack of sound evidence suggests that not all of these efforts indeed result in improvement in leadership. Thus, there seems to be a need to explore leadership development approaches that are aligned with their particular strategic context.

This dissertation proposes to address this issue by exploring the role of leadership development practices for turning strategy into practice in the particular context of multibusiness firms. In order to realize intended cross-business growth and efficiency synergies, valuable collaboration activities across the firm's businesses are seen to be critical (Goold et al., 1998a; Müller-Stewens & Knoll, 2006). Interestingly, these cross-business collaboration activities originate in the businesses rather than in the corporate center of a multibusiness firm (Martin & Eisenhardt, 2003). Further, entrepreneurial leadership and the related social capital seem to be involved when it comes to valuable cross-business collaboration (Martin et al., 2003). Thus, in contrast to traditional human-capital-oriented approaches to leadership development, we will address particularly the contribution to social capital. Previous human resources management literature was mainly concerned with explaining the effect of leadership development regarding a single intervention (Kepes & Delery, 2007; Mabey, 2002). However, from a strategic perspective the interrelation and alignment of different leadership development practices is seen to be critical in creating sustained competitive advantage (Allen & Wright, 2007; Boxall, Purcell, & Wright, 2007; Kepes et al., 2007; Purcell & Kinnie, 2007). To overcome this shortcoming of traditional human resources management literature we will adopt a strategic human resources management perspective in this dissertation.

To introduce the dissertation's purpose, this chapter is structured as follows. First, we describe the research problem in more detail, including the existing research gaps, and indicate our research intent and guiding questions (1.1). In subchapter 1.2, we inform about our intended contribution to existing research and managerial practice. Finally, we conclude by providing an outline of this dissertation's content to orient the readers (1.3).

## 1.1 Research Problem and Research Gaps

It is widely acknowledged that leadership development does not only contribute to individual career success but also to collective performance on the organizational level (for an overview: Burke & Day, 1986; Collins & Holton, 2004; Mabey, 2002). Thus, it is apparent that multibusiness firms make extensive use of leadership development practices in order to enhance their corporate advantage. This is mirrored in the estimated EUR 1.5 billion invested annually in leadership development programs in Europe across all industries, as reported in a recent global survey by PriceWaterhouseCoopers (PriceWaterhouseCoopers, 2006). However, this investment seems to be rather “an act of faith” (Mabey & Ramirez, 2005:1067). Indeed, measuring effective leadership on the firm level against selected metrics, the study by PriceWaterhouseCoopers points out that despite these considerable investments there has been no significant improvement in overall leadership in organizations. They conclude by calling for a review of the efficacy of leadership development programs. This call is shared by most of the leadership development literature, which complains about a lack of empirical evidence regarding the impact of leadership development on the organizational level (e.g. Mabey et al., 2005).

Indeed, it is difficult to identify studies that explore the linkage between leadership development and the benefit of this investment on different organizational levels, especially on the corporate level (Winterton & Winterton, 1997; Wright, Gardner, Mo-jihan, & Allen, 2005). It is reported that positive associations on the individual and organizational levels can *somehow* be found (Mabey et al., 2005; Winterton et al., 1997); however, results remain scattered and diverse. Beyond that, causality remains unexplained. It is not clear whether leadership development practices have contributed to larger performance outcomes or whether larger performance outcomes have resulted in larger investments in leadership development (Boxall & Purcell, 2003; PriceWaterhouseCoopers, 2006). With respect to the continuous flow of high level investments by firms in this domain, there is agreement among scholars and practitioners on the need to review the efficacy of leadership development regarding its organizational contribution in general (Mabey et al., 2005; PriceWaterhouseCoopers, 2006; Winterton et al., 1997). This will be particularly intriguing for a firm relying on leadership development as a means for fostering strategy realization, such as large multibusiness firms. Thus, this dissertation aims to offer corporate management, and more specifically corporate human resources management, insight into the effective use of leadership development practices as a source of corporate advantage.

From the perspective of corporate management, leadership development can be seen as a subsystem of human resources management. Therefore, strategic management re-

search as well as human resources management research and particularly leadership development research have to be consulted when exploring the role of leadership development in a multibusiness firm's strategy realization.

In searching for explanations of performance differences among multibusiness firms, *strategic management literature* acknowledges the importance of the way corporate management drives the strategy realization. As a diversification of businesses as such – disregarding its degree and its organizational arrangement - does not *automatically* lead to superior corporate effects or synergy realization (Müller-Stewens & Brauer, 2007; Müller-Stewens & Knoll, 2005b; Rumelt, Schendel, & Teece, 1994), the *management* of these elements seems to be rather critical (e.g. Bowman & Helfat, 2001). However, surprisingly little is known on how multibusiness firms realize their cross-business synergy potential and the underlying processes (Martin et al., 2003). Thus, exploring how the corporate management of a multibusiness firm enables cross-business value creation is considered valuable.

*Human resources management* literature entails a large body of studies investigating the contribution of human resources management practices (including leadership development practices) to firm performance (Huselid, 1995). Even though most studies acknowledge a correlation between the two, there is still a lack of sound evidence (Boxall & Purcell, 2003; Purcell & Kinnie, 2007; Wright et al., 2001). In particular, it is not clear *through which process* leadership development creates organizational impact and not only individual career success (Mabey et al., 2005; Purcell et al., 2007). As most studies are based on HR managers as respondents, the view of the employee, who experiences these activities is surprisingly absent. To consider the key role of employees in producing performance outcomes, it is suggested that the performance relationship should be fine-grained by focusing in particular on employee perception as a mediating factor (Purcell & Kinnie, 2007). A further concern is that, primarily, only isolated practices are addressed, regardless of their potential interrelations (Kepes & Delery, 2007; Lewis, 1997).

Thus, both fields identify a need to further explore how leadership development practices might contribute to cross-business value creation within a multibusiness firm. The inherent macro-level perspective of strategic management research does not adequately reflect how important people management at the individual level is to the process of strategy realization. At the same time, human resources management has an inherent micro-level perspective which equally falls short in accounting for the interrelationship of diverse leadership development practices within a strategic context (Allen & Wright, 2007).

The young discipline of *strategic human resources management* seeks to bridge this gap. By focusing on a subset of human resources practices, its core concern lies with the *interrelation and alignment* of human resources practices in order to form a source of competitive advantage. Even though many researchers repeatedly affirm the importance of a strategic alignment of human resources management practices, such as leadership development, (Allen & Wright, 2007; Boxall et al., 2003; Kepes et al., 2007; Kerr & Jackofsky, 1989), it is still not clear how this should be done in order to create an impact with a specific focus on corporate level.

By investigating the role of leadership development for cross-business value creation in multibusiness firms, this dissertation aims to contribute to the identified unexplored areas of strategic management and human resources management research. By focusing on the particular question of *alignment* of leadership development practices, it is intended to bridge the shortcomings of both fields. Consequently, this dissertation proposes to adopt a strategic human resources management perspective.

## 1.2 Research Focus and Guiding Questions

Given the acknowledged importance of successful leadership development as a means for enabling corporate added value, it is of vital interest for multibusiness firms to understand when and how leadership development contributes to firm success beyond individual competency and skill enhancement. Recognizing this importance of leadership development as a means for corporate management to realize strategy, the specific research intent of this dissertation lies primarily in understanding more about *how* leadership development practices impact the realization of cross-business value creation on a corporate level.

Before elaborating on the various leadership development practices and their contribution, we must first clarify what leadership development practices should aim for in the strategic setting of multibusiness firms. In other words, what are the relevant conditions for realizing cross-business synergies in a multibusiness firm's context?

Recognizing *cross-business collaboration activities* as the engine of organic business growth – and thus strategy realization - in multibusiness firms (Goold & Campbell, 1998a; Müller-Stewens & Knoll, 2006), this attempt starts by elaborating the most important factors involved in the strategy realization process in general and cross-business collaboration in particular.

A growing body of literature identifies *middle managers* as playing a key role in the strategy realization process, arguing that “organizational performance is heavily influenced by what happens in the middle of the organization, rather than at the top” (Cur-

rie & Procter, 2005:1325). According to Martin et al. (2003), this might also apply to the realization of cross-business synergies as they show that cross-business collaboration initiatives originate among the businesses rather than from top management. Further, we know from middle manager literature that certain strategic activities have been proven to be related to strategic impact, such as, for example, championing alternative opportunities or implementation activities etc. (Floyd & Wooldridge, 1997) Corporate entrepreneurship literature also reveals the activities of middle managers to be comprised of the discovery and exploitation of new business opportunities on a very general level (Kuratko, Ireland, Covin, & Hornsby, 2005). It appears that *entrepreneurial leadership* is involved when it comes to valuable cross-business synergy realization (Martin et al., 2003). However, entrepreneurial leadership requires adequate social relationships to be employed and put into valuable action (Adler & Kwon, 2002; Ireland, Hitt, & Sirmon, 2003). In this sense, *social capital* is considered to be both an important antecedent and an outcome of entrepreneurial leadership activities. It is argued that to enhance valuable cross-business collaboration within multibusiness firms, leadership development practices need to contribute to the social capital of middle managers in order to foster the necessary entrepreneurial leadership activities.

Consequently, it is of interest to understand first how social capital contributes to cross-business collaboration in multibusiness firms and how middle managers deploy and build it. This results in our first research question:

### **Research Question 1:**

1. How does social capital contribute to middle managers' cross-business collaboration activities and how is it developed?

Based on these first insights, it is of interest to examine how the building of this social capital can be supported systematically by leadership development practices. Traditionally, the contribution of leadership development is seen in the competency and skill enhancement of managers (Neck & Manz, 1996); thus, it is considered to be a function of the human capital of a firm. Beyond these individual-level approaches, recent approaches recognize the role of leadership development in supporting the strategy realization process by enhancing the internal social capital aligning strategic orientation, shared values and creating trustful social relationships across units (Day, 2000). Faced with the existing variety of leadership development practices, such as, e.g., internal leadership training, job assignments, mentoring, coaching, 360-degree feedback, etc., a deeper understanding of *how* these leadership development practices contribute to valuable cross-business collaboration through fostering social capital is needed. Traditionally, most of the leadership development studies engage in a cross-

sectional evaluation approach based on a specific, single leadership development intervention (Kepes et al., 2007; Lewis, 1997). This disregards the mutual reinforcement of the different leadership development practices that are embedded in a certain strategic context over time. Therefore, this dissertation turns the perspective toward exploring patterns of leadership development *experiences* that contribute to the necessary social capital development for valuable cross-business collaboration according to the perception of middle managers:

**Research Question 2:**

2. In which way do leadership development experiences most likely allow a middle manager to accumulate the necessary social capital for valuable cross-business collaboration?

For corporate human resources management within a multibusiness firm, however, it is of interest to know how leadership development practices can be aligned and designed to enhance systematically the relevant experiences for valuable cross-business collaboration. Thus, based on the elaboration of the leadership development *experiences*, we will elaborate as well on the underlying (intended) leadership development *practices*. In doing so, we seek to derive theoretical propositions on a design of aligned leadership development practices favorable to enabling valuable cross-business collaboration. This is indicated by our last research question:

**Research Question 3:**

3. How can corporate human resource management align leadership development practices to foster cross-business value creation?

In general, this dissertation offers a different research perspective and evaluation of leadership development practices in two ways. First, whereas traditional perspectives have focused mostly on the contribution of *individual* human resources practices, we aim to focus on their effect through *interrelationships and alignment*. Secondly, we consider not only the *intended* and designed practices but integrate the view of how they are *experienced*. Our perspective in distinction to other research perspectives is summarized in the following figure:

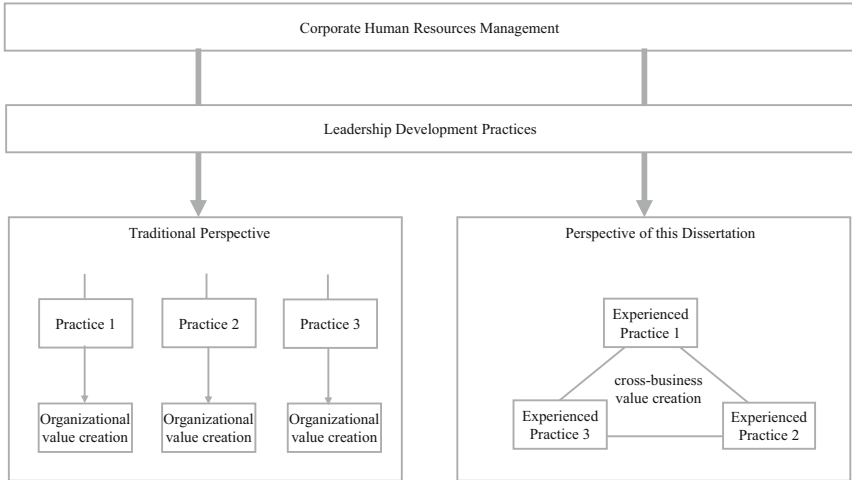


Figure 1-1: Perspective of the Dissertation

### 1.3 Purpose and Contribution

Generally, our research intent in this dissertation lies primarily in understanding more about *how* leadership development practices impact the realization of cross-business value creation in a multibusiness firm on a corporate level. We argue that *leadership development practices* are a means for multibusiness firms to fostering strategy realization by enhancing the *social capital of middle managers*, which in turn fosters entrepreneurial leadership activities necessary for valuable cross-business collaboration. We hereby aim to contribute to both literature of strategic management and human resource management with their respective sub-domains.

We intend to contribute to *strategic management* literature in three regards. Focusing on the managerial aspect of corporate strategy including strategy realization, we contribute primarily to corporate strategy, process and cross-business synergy literature (e.g. Goold et al., 1998a; 1994; 1998b; Martin et al., 2003; Müller-Stewens et al., 2005b, 2006; Porter, 1996; Porter, 1987). We provide insights on how corporate management and its human resource management can enable cross-business collaboration among its businesses through the alignment of leadership development practices. By focusing on the particular role of middle managers, we aim, secondly, to contribute as well to middle manager literature (e.g. Floyd & Wooldridge, 1992, 1996; 1997, 2000; Pappas & Wooldridge, 2007). As this literature is mostly concerned with strategic activities that are directed up- or downward, we might complement this view with a lateral and peer-related view that is relevant in cross-business collaboration settings. Fi-

nally, we intend to contribute as well to organizational social capital literature (Ghoshal & Bartlett, 1990; Leana & Van Buren, 1999; Mehra, Dixon, Brass, & Robertson, 2006; Nahapiet & Ghoshal, 1998; Tsai, 2000, 2002; Tsai et al., 1998). We refine the understanding of the quality of social capital needed for valuable cross-business collaboration and how it might be distinct to other types of intra-organizational collaboration. Further, we provide insights on the deployment and development of relevant social capital for valuable cross-business collaboration.

We also seek to contribute to the literature of *human resource management* (Boxcall, Purcell, & Wright, 2007; Purcell et al., 2007; Ulrich & Brockbank, 2005; Wright et al., 2001), particularly the sub-domain of leadership development (Conger, 1993; Day, 2000; Fiedler, 1998; Mabey et al., 2005; Seibert, Hall, & Kram, 1995; Winterton et al., 1997) and strategic human resources management (Boxall et al., 2003; Holbeche, 1999; Kepes et al., 2007; Kerr et al., 1989). First, we address the suggestion found in the literature to examine the performance linkage by introducing the employee experience perspective explicitly into the conceptual model (Purcell et al., 2007). In doing so, we provide insights into how leadership development practices are experienced in order to serve in a particular strategic firm context. Secondly, we broaden leadership development literature with insights on how practices most likely support social capital – individually and in interrelationships. Finally, we intend to enrich strategic human resources management literature on how leadership development practices can be aligned in order to become a source of sustained competitive advantage for multibusiness firms itself.

Beyond that, our research might have important implications for the *top managers and the corporate human resources managers* of a multi-business firm as well as *consultants* in human resources management and leadership development. Focusing on the realization of cross-business synergy generation, we provide insights into how strategy realization can be enabled with a set of leadership development practices that fosters the necessary collaboration culture and leadership capabilities. For corporate human resources managers we provide insights on how to design and align leadership development practices that enhance particularly cross-business collaboration activities. Moreover, this might help to distinguish leadership development practices on business and on corporate level regarding contribution and design.

#### **1.4 Outline of Dissertation**

This dissertation is structured as follows. Framed by an introductory chapter at the beginning and a conclusion chapter at the end, the body of the work consists of four chapters, comprising the theoretical embedding of this dissertation (chapter 2), the re-

search approach (chapter 3), the case study presenting the empirical findings (chapter 4), followed by the analytical generalization of the findings (chapter 5).

In the *first chapter*, we introduce the research problem: the realization of cross-business growth synergies by multibusiness firms. We focus on research gaps and our intent to explore leadership development as a means for multibusiness firms to achieve corporate advantage. Further, we derive guiding research questions and outline our intended contributions.

In the *second chapter*, to embed our problem, we review the existing research and theory with regard to our research focus. Based on that, we elaborate a guiding investigation framework for our research. We divide this chapter into three parts: First, we review the main theoretical building blocks of *multibusiness firms*, their strategy, and the factors that need to be considered in strategy realization. Secondly, we introduce *leadership development* as a human resource management activity, its impact on performance, and the shortcomings of previous research. Finally, based on the shortcomings of the existing literature, we propose for our research a *guiding investigation framework* adopting a strategic human resources management perspective. We describe each element of the framework, including a selection of the most promising leadership development practices and their potential contribution to social capital.

In the *third chapter*, we outline our research approach, indicating how we intend to investigate our research questions. We propose an *inductive embedded case study* approach to capture leadership development practices and how they have been experienced. Working with the multibusiness firm that was selected as our research site, we chose a sample consisting of middle managers who have been successful in cross-business collaboration activities as well as middle managers who have been less successful. Based on this selection, we aim to compare both samples with regard to their cross-business social capital and leadership development experiences.

In *chapter four*, we present our *empirical findings* in the format of a *case study*. We first describe the research context and the research site. Further, we engage in a *within-case study*, analyzing cross-business collaboration activities, social capital and leadership development experiences among middle managers with *high, moderate and low* engagement in cross-business collaboration.

*Chapter five* provides an in-depth analysis across the three groups of middle managers related to each research question. The findings are supported by interview citations and discussed in the light of the existing literature. This results in the development of a set of theoretical propositions that can be summarized thusly: 1) different cross-business collaboration activities require different degrees (stages) of social capital; 2)

social capital stages are path-dependent in nature and develop out of each other; 3) different leadership development experiences contribute to different stages of social capital; 4) leadership development practices should be aligned in such a way that they contribute to the development of the identified stages of social capital.

Finally, we summarize in *chapter six* the contributions of this dissertation to theory and managerial practice and refer to the limitations and directions for future research.

The outline of this dissertation is summarized in the following figure:

|   |
|---|
| <p><b>1. Introduction</b></p> <ul style="list-style-type: none"> <li>• Research Problem and Research Gaps</li> <li>• Research Focus and Guiding Question</li> </ul>   |
| <p><b>2. Existing Theory and Research</b></p> <ul style="list-style-type: none"> <li>• Multibusiness Firms</li> <li>• Leadership Development in Multibusiness Firms</li> <li>• Strategic Alignment of Leadership Development in Multibusiness Firms</li> </ul>                        |
| <p><b>3. Research Approach</b></p> <ul style="list-style-type: none"> <li>• Research Methodology</li> <li>• Research Design and Data Analysis</li> <li>• Research Quality</li> </ul>  |
| <p><b>4. Case Study</b></p> <ul style="list-style-type: none"> <li>• Research Context</li> <li>• Research Site</li> <li>• Cross-collaborating Middle Managers</li> </ul>  |
| <p><b>5. Analytical Generalization</b></p> <ul style="list-style-type: none"> <li>• The role of Social Capital in Cross-business Collaboration</li> <li>• Leadership Developments' Contribution to Social Capital</li> <li>• Strategic Alignment of Leadership Development</li> </ul> |
| <p><b>6. Conclusion</b></p> <ul style="list-style-type: none"> <li>• Contributions to Theory and Practice</li> <li>• Limitations of this Dissertation and Directions for future Research</li> </ul>   |

Figure 1-2: Outline of Dissertation

## 2 Existing Theory and Research

### 2.1 Multibusiness Firms

#### 2.1.1 Introduction

Most large firms today are multibusiness firms (Bowman et al., 2001; Müller-Stewens & Brauer, 2007), which means that they are engaged in more than one business. Thus, a common characteristic of multibusiness firms (in the following, abbreviated with MBF) is that they are diversified, even though their degree of diversification might differ and vary over time (for an overview: Palich, Cardinal, & Miller, 2000; Ramanujam & Varadarajan, 1996). The primary entrepreneurial logic underlying the management of an MBF is identical to that of a single-business firm: to create added value (Goold et al., 1994). In contrast to single business firms, the management of an MBF assumes that it is able to create a higher added value as corporation, i.e., it is more than the sum of the value creation of its individual businesses. During the last several decades this phenomenon has been subject to extensive economic and management research efforts in order to understand whether, why and under which circumstances diversification of MBFs leads to corporate advantage, and consequently, how it can be managed.

The research intent of this dissertation is to explore the role of leadership development for cross-business value creation in MBFs. With regard to this intent, some basic concepts of the MBF are outlined in this chapter. First, cross-business value creation as the *entrepreneurial rationale* of MBFs (2.1.2.) is introduced, followed by the illustration of cross-business synergies as the basic ingredient of *corporate strategies* in MBFs (2.1.3). Thereafter, the role of *middle managers*, entrepreneurial leadership and social capital for *strategy realization* in MBFs are discussed (2.1.4). Finally, in chapter 2.1.5 we summarize the most important theoretical insights and shortcomings regarding our research intent and position our research attempt within strategic management literature. It is important to emphasize, that we confine the review consciously to what we believe is useful for our research approach.

#### 2.1.2 Entrepreneurial Rationale

To strive for continuous corporate value creation in order to create a corporate advantage is the entrepreneurial underlying rationale of each MBF, independently of industries (e.g. Chandler, 1991; Goold et al., 1994; Müller-Stewens et al., 2007). However, value creation generally is not a concept used only for MBFs (Goold et al., 1994). Rather, it is the prime and inherent rationale of each enterprise, independent of its being a single or multibusiness company. A firm creates value to fulfill the interests and

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minimum requirements of its stakeholders to sustain their support. That means “[o]n a most simplest level, value creation is the creation of a surplus over and above these requirements.” (Goold et al., 1994: 39). Indeed, if an MBF is not capable of creating corporate value, it might face of increasing pressure from financial investors to abandon one of its businesses (Müller-Stewens et al., 2005a). Corporate management that is a parent of multiple businesses should strive to create more value than its businesses would create stand-alone in the market (e.g. Ansoff, 1965; Goold et al., 1994; Porter, 1985; 1987) or if they were owned by another parent (Campbell, Goold, & Alexander, 1995). Scholars refer to this phenomenon in various ways such as *corporate effects* (e.g. Rumelt, 1982; 1994), *corporate surplus (or discount)* (e.g. Markides & Williamson, 1994; Williamson, 1996) *corporate advantage* (e.g. Collis & Montgomery, 1998; Peteraf, 1996) or *parenting advantage* (e.g. Goold, Campbell, & Alexander, 1998b). It characterizes corporations as creating an added value which is higher than the sum of its parts, taking all costs for the management of the corporation into account.

The variety of terms indicates the underlying diversity of theoretical perspectives that have contributed to the understanding of this phenomenon, such as an economically rooted *diversification* view (e.g. Rumelt, 1982), a market-oriented *transaction cost view* (e.g. Markides et al., 1994) or an organization-oriented *resource based view* (e.g. Collis & Montgomery, 1995). During the last few decades, this body of research was at its heart concerned with the question of whether MBFs create value through their corporation or not, in other words, whether corporate effects do exist. Whereas some authors question the existence of corporate effects (Rumelt, 1982; Schmalensee, 1985), recent studies investigating the diversification performance linkage provide persuasive support that a corporate surplus – and discount – does occur (Bowman et al., 2001; Helfat & Eisenhardt, 2004; Markides et al., 1994; Palich et al., 2000). Extensive investigatory efforts into the question of the *degree* of diversification, i.e. specific relatedness measures (e.g. Bettis, 1981; Rumelt, 1982) could, however, not harmonize these inconsistent empirical results. Nor did approaches regarding the *appropriate organizational arrangements* (Govindarajan, 1988; Hill, Hitt, & Hoskisson, 1992) sufficiently account for performance differences among MBFs. Analyzing this ongoing debate, Bowman et al (2000) conclude that if different methodological approaches and samples are taken into account, corporate effects remain viable.

In sum, the research literature identifies six major factors influencing corporate effects: *the scope of the firm*, the core *competencies*, *organizational structures*, *systems of planning and control* as well as the *corporate management* in terms of the managerial ability to strategize and manage the foregoing influencing factors (Bowman et al., 2001). Thus, it seems that a diversification of businesses as such - related or unrelated

- in one or the other organizational arrangement does not *automatically* lead to superior corporate effects or synergy realization (e.g. Müller-Stewens et al., 2007; 2005b; Rumelt et al., 1994). Rather a corporate strategy, reflecting the *management of these effects*, seems to play an important role in explaining corporate advantage (Bowman et al., 2001).

### 2.1.3 Corporate Strategy

Whereas a single business firm can only source its value creation from the value chain of its single business, the advantage of a multibusiness firm lies in having an additional source to realize added value *across* all businesses (Goold et al., 1994). Accordingly, the corporate management of an MBF is typically concerned with both business and corporate level effects and thus strategies. Whereas *business* strategy “deals with the ways in which a single-business firm or an individual business unit of a larger firm competes within a particular industry or market, [*c*]orporate strategy deals with the ways in which a corporation manages a set of businesses together.” (Bowman et al., 2001:4). In other words: “Corporate Strategy is the way a company creates value through the configuration and coordination of its multimarket activities.” (Collis & Montgomery, 1997: 5). Thus, different corporate strategies and contingent forms of configuration and coordination among MBFs are apparent. For example, an MBF striving for an added value through the portfolio management (referred to as *portfolio optimization*) of the company mainly implies diversifying through the acquisition of businesses which do not necessarily have to be in the same industry as the existing businesses. In such a setting, the businesses remain rather autonomous and coordination is managed via induced management techniques and capital sharing (Collis, 1996; Grant, 1996; Porter, 1987). Relationships between the corporate management and the businesses are central, whereas relationships among the businesses are only marginally important in this strategic context.

In contrast, MBFs that strive to create added value by *exploiting the interrelationships between the businesses* can do so in two different ways: Either they transfer skills and know-how to optimize the value chain management of their businesses (referred to as *vertical optimization*) or they directly integrate and share certain value chain activities (referred to as *horizontal optimization*), such as, for example, a shared production site (Goold et al., 1998a; Müller-Stewens et al., 2007; Porter, 1987). While a strategy focusing on vertical optimization implies that businesses still act autonomously, in a setting of horizontal optimization the organizational autonomy of the businesses is limited in favor of a strategic integration. However, even though the way to create the corporate surplus can seemingly differ, *cross-business value creation* remains the common denominator of an MBF corporate strategy. Thus, *synergies* discussed as the

most important vehicle and source of cross-business value creation are an important strategic concept for MBFs (Martin & Eisenhardt, 2001). Indeed, most strategic moves toward diversification or acquisitions and mergers arise in the primary idea of creating synergies (Goold & Campbell, 1998a; Sirower, 1997). Therefore we will describe in more detail what cross-business synergies mean in the following sections.

**Definition of Cross-business Synergies.** Introduced by Igor Ansoff (1965) into strategic management literature, the concept generally assumes that the whole is more than the sum of its parts. Applied to the context of MBFs it describes the effect that the return of the whole corporation is more than the sum of the returns of each individual business (Ansoff, 1965). As returns can be either influenced through reductions of expenditures *or* enhancement of revenues, the term synergy does not strictly refer only to potential cost savings as some authors (e.g. Besanko, Dranove, & Shanley, 2000) and common usage generally suggest. Therefore Martin et al. (2001) opt for a comprehensive definition, defining cross-business synergies as “the value that is created over time by the sum of the businesses together relative to what their value would be separately.” (Martin et al., 2001:3). However, this is a rather outcome-based definition. Realizing synergies has a price and needs to be managed (Porter, 1996; Porter, 1985; Sirower, 1997); otherwise, dissynergies can result when transaction costs are higher than realized synergies. This refers to the relevance of the underlying *process* of cross-business synergy realization, which is reflected in a definition by Goold and Campbell (1998) who understands cross-business synergies as “the ability of two or more units or companies to generate greater value working together than they could working apart.” (Goold et al., 1998a:133).

**Types of Cross-business Synergies.** Despite the fact that several research domains have addressed cross-business synergies very few attempts at a typology or comprehensive classification scheme exist (Ansoff, 1965; Goold & Campbell, 2000; Porter, 1996). A recent approach to provide a typology of cross-business synergies distinguishes cross-business synergies according to the nature of the resources involved as well as based on their desired outcome (Knoll, 2008; Müller-Stewens et al., 2005a). Accordingly, synergies are categorized into *operative synergies*, *market power synergies*, *financial synergies* and *corporate management synergies*. Whereas *operative synergies* focus on leveraging operative resources across their businesses to increase efficiency and profitable growth, *market power related synergies* aim to reduce business-level competition by sharing market power resources. *Financial synergies* exploit financial advantages to lower capital costs and increase firms financial flexibility and *corporate management synergies* profit from leveraging corporate management resources to the individual businesses of a firm (Knoll, 2008). Depending on their corpo-

rate strategy an MBF might emphasize different types of cross-business synergies. For example, an MBF following the strategy of a portfolio manager strives to achieve cross-business value creation through the realization of financial synergies, whereas an MBF following a horizontal optimization strategy will realize operative synergies.

**Efficiency and Growth Synergies.** Within the category of operative synergies, *efficiency* and *growth synergies* can be distinguished (Knoll, 2008). *Efficiency synergies* commonly known and formalized as ‘economies of scope’ refer to a sharing of *similar* operative resources, for instance concentrating selected value chain activities across businesses, such as IT service or production facilities (Collis et al., 1998; Porter, 1987), which in consequence lead to the benefit of investment reductions. *Growth synergies* are much less frequently addressed in the literature than efficiency synergies (Palich et al., 2000; Ramanujam et al., 1996). They have only recently emerged within strategic management research and are not yet elaborated satisfactorily. Accordingly, this dissertation intends to illuminate these specific growth synergies further. It seems that there are indications 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” (Knoll, 2008:26). In other words, *efficiency* synergies imply the bundling and exploitation of *similar* resources, such as, e.g., a plant facility, whereas *growth* synergies imply the combination and bundling of *complementary* resources, such as different products, to a unique business or customer solution (Knoll, 2008; Tanriverdi & Venkatraman, 2005).

MBFs might pursue different types of cross-business synergies depending on their main strategic orientation. However, the underlying strategic logic remains the same: the realization of cross-business value creation over cross-business synergies.

#### 2.1.4 Strategy Realization<sup>1</sup>

If the corporate strategy of an MBF centers on value creation across its businesses through different types of cross-business synergies, corporate management must be considered to involve the *realization of cross-business synergies* when turning strategy into practice. Despite the pursuit of cross-business value creation as the underlying strategic logic of any MBF, relatively little is known on how these cross-business syn-

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<sup>1</sup> Acknowledging the mutually reinforcing character of strategy formation and implementation as a continuous intertwined process in practice (Burgelman, 1991; Lechner, 2006), we use the term strategy realization instead of strategy implementation in order to avoid a false impression of a separability that might only exist for analytical purposes.

ergies are de facto realized by managers, and thus it still remains an elusive goal to most MBFs (Martin et al., 2001, 2003; Porter, 1987).

Generally, the realization of cross-business synergies affects two major relationships in an MBF: The relationships between the businesses and their corporate center and the relationships between the businesses (Martin et al., 2001, 2003). Whereas an MBF pursuing portfolio optimization is most likely concerned with the relationship of the corporate center and its businesses, vertical and, particularly, horizontal optimization need to consider as well the relationships among businesses (Goold et al., 1998a). Even though research on cross-business synergies has not yet provided specific insights into the sources, contexts or processes by which cross-business synergy potentials are realized, it seems that it is not trivial. Competition, rather than collaboration<sup>2</sup>, will occur when an aligned strategic orientation, shared values and a climate of trust are lacking (Burgelman et al., 2001; Goold et al., 1998a). To create such an environment, particular management and leadership capabilities are necessary, such as to enhance trust and *collaboration between the businesses*, the capability to balance their different and mostly conflicting interests as well as *entrepreneurial leadership* to turn potentials into realization (Müller-Stewens & Knoll, 2005b). Particularly in strategic settings where the relationships among businesses are considered to be the main source of cross-business value creation (horizontal optimization), *collaboration activities across businesses* can be seen as playing a major role for synergy realization. Indeed, managers of MBFs confirmed in a recent survey that they see in cross-business collaboration efforts their most important strategic priority today and in the future (Müller-Stewens & Knoll, 2006).

The importance of cross-business collaboration is also noted by Campbell (1999), who identifies it as “the key” to cross-business synergy realization, which is already reflected in the above-mentioned definition of cross-business synergies as the ability to generate greater value by *working together* (Goold et al., 1998a:133). Thus, for an MBF that is particularly concerned with horizontal optimization, valuable cross-business collaboration can be seen as the main ingredient to be managed in its strategy realization.

One means of corporate management to *directly* influence cross-business collaboration is to create *influencing linkages* between businesses (Goold et al., 1994), e.g., through

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<sup>2</sup> We will use the term “collaboration” interchangeably with cooperation (Huxham, 1996). We are aware of the historical associations with this term and will use it in a positive way according to Huxham (1996) who clarifies in the first sentence of his book: “For some, the term ‘collaboration’ carries a negative connotation; this is a hang-over from the Second World War when the term was used to describe those who worked with the enemy. In this book, however, ‘collaboration’ is taken to imply a very positive form of working in association with others for some form of mutual benefit.” (Huxham 1996:1).

management processes, information and resource sharing, coordination of client approach, product innovations, etc. However, to imposing and determining these linkages implies, on the other hand, the enormous risk of destroying value by creating large overhead costs of central staff in order to be able to coordinate and control these linkages (Goold et al., 1994). Thus, particularly in strategic settings focusing on cross-business collaboration as a source of corporate advantage, the possibilities for an MBF to manage strategy realization are difficult and limited. In this case, the role of a corporate management has to be rather *indirect* in nature. By setting the adequate organizational and procedural arrangements it enables the respective collaboration culture and management capabilities (Müller-Stewens et al., 2005b). How a respective collaboration culture, including the relevant management capabilities, can be enabled in such a way that cross-business collaboration is enhanced is an intriguing question for the corporate management of an MBF (Campbell, 1999), but it has yet to be explored (Campbell, 1999; Eisenhardt & Galunic, 2000; Martin et al., 2003). Thus, contributing to this need for elaboration has been identified as valuable attempt for this dissertation. Consequently, the next sections refer to MBFs which strategically pursue a horizontal optimization over operative synergies (efficiency and growth synergies) and thus engage in cross-business collaboration as main source for corporate advantage. As the contribution of corporate management is limited to an indirect role, *middle managers* among the businesses have to be taken into account.

**The Role of Middle Managers for Strategy Realization in MBFs.** A growing body of literature has identified middle managers “as key strategic actors”, arguing - in contrast to the traditional research focus on top management teams - that “organizational performance is heavily influenced by what happens in the middle of the organization, rather than at the top” (Currie et al., 2005:1325). Among the first studies that were concerned with the role of middle managers with regards to organizational performance was a study by Wooldridge & Floyd (1990). They showed that the involvement of middle managers in the strategy process lead to higher quality of both, strategy implementation *and* formation. Unlike top managers, middle managers are still close to clients and markets and thus have the potential advantage being the first to recognize strategic problems and opportunities in the market environment. At the same time, middle managers are responsible for realizing the strategy. Early involvement, they argue, leads to a *shared common understanding* of the strategy as well as a *commitment* to its realization. Both enhance the engagement of middle managers in strategy implementation (Wooldridge & Floyd, 1990).

Even though this study was not purposely conducted in a cross-collaboration setting, it reveals the important contribution of middle managers for strategy realization in gen-