4 Operationalizing Parenting Advantage

4.1 Abstract

After its introduction in the mid-1990s, the concept of parenting advantage was quickly adopted by many standard textbooks on strategic management. Empirical studies revealed that the concept is considered highly relevant for strategy formulation and portfolio management at corporate level; however, its broader application has not lived up to expectations. This paper assumes that this is due to two major limitations of the original concept: firstly, it neglects the indirect compositional effects of the portfolio that are not due to active involvement of the corporate parent, and secondly, the concept has not been sufficiently operationalized to the level of specific value-added activities. In order to address this apparent research gap, the major attempt of this paper is the development of a theoretical framework that can be used to investigate actual parenting approaches of corporate headquarters and to analyze the relevance of different value added activities in corporate practice, as well as their potential combinations in distinct parenting strategies. To this end, we have developed a three-dimensional framework that accounts for (1) corporate-to-business as well as business-to-business interactions, (2) value-added as well as value-destroyed activities, and (3) strategic as well as operational levers. We operationalized this framework by assigning a broad set of individual activities to these levers, derived from the existing literature of value creation in multi-business companies.
4.2 Introduction

There is a considerable stream of academic research that claims that multi-business companies are at a valuation disadvantage compared to their focused peers (for investigations of market performance differences, valuation discounts, and inferior cash flow of diversified multi-business companies compared with focused competitors, see Berger and Ofek, 1995; Lamont, 1997; Lang and Stulz, 1994; Rajan, Servaes, and Zingales, 2000; Scharfstein and Stein, 2000; Shin and Stulz, 1998). Empirical studies show, however, that valuation discounts of diversified firms vary strongly by region, over time, and especially by company sample. Thus, it is not only the degree of diversity that determines the value of a multi-business firm; it is also how a company applies its specific parenting advantage to manage the diversity of its portfolio. The concept of parenting advantage as introduced by Goold, Campbell and Alexander provides a theoretical foundation for this strategic challenge (Goold, Campbell, and Alexander, 1994, 1996, 1998). It places the role of the corporate parent (i.e., corporate headquarters) in center stage of the strategic management debate. Companies should strive to be the best possible owner for the businesses in their corporate portfolio, or sell businesses at favorable terms to better owners. In order to achieve this parenting advantage, the characteristics of the corporate parent must be compatible with the critical success factors of the businesses and their specific needs and parenting opportunities. In this way, parenting advantage should determine in which operational activities the company invests its financial and managerial resources and how the corporate parent influences the business units under its control (Goold et al., 1994). The concept can serve as a guideline for executive decision-making, the role of the corporate parent (van Oijen and Douma, 2000), different val-