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
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