The Role of Corporate Centre in Building Strategic Growth

Framework for SBF – Hay Group Human Capital Series

Dr. Andreas Raharso – Hay Group Global Research Centre for Strategy Execution
Corporate Centre

An entity at the top of a corporation which controls corporate resources and establishes firm policies, which members do not need to be located at the same office or region.
“A few companies have corporate centre that create substantial value, the large majority do not; they are value destroyers.”

Challenges:

What value the corporate centre needs to provide under certain growth strategy context?

How to sustain a high value-adding customer centric role over the time?

Corporate centre will determine a business unit’s ability to compete and ultimately generate growth.

11 years research on corporate level strategy – Ashridge Strategic Management Centre.
### Exhibit 5. Portfolio Structure Heavily Influences the Role of the Center

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**Degree of intervention**
Alternative logic: Focus on Value Creation

Source of Corporate Centre Value Creation

Resource

Leverage the Centre Resources
Alternative logic: Focus on Value Creation

Source of Corporate Centre Value Creation

Resource
Leverage the Centre Resources

Synergy
Creation of Synergy

Learning
Formation of New Knowledge

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Alternative Logic: Degree of Intervention

Indirect Intervention / Decentralization

Direct Intervention / Centralization
New Corporate Centre Logic

Direct Intervention / Centralization

Indirect Intervention / Decentralization

Source of Corporate Centre Value Creation

Resource
Leverage the Centre Resources

Synergy
Creation of Synergy

Learning
Formation of New Knowledge
Case Study: Israel Dairy Company – Create Synergy from Learning

An Israeli dairy company that is very successful in its globalization strategy. Entrance of foreign competitors led to formation of joint ventures to reduce competition.

Joint ventures with Unilever, Danone, and Frito-Lay led to the learning of new business knowledge about synergy.

Learning should have occurred before the formation of joint ventures to have capture opportunities much earlier.
Corporate Centre Value Creation
Illustrative Low Cost Solution

Source of Corporate Centre Value Creation

Direct Intervention

- Resource
  - Centralization
    - Supply Chain Management

- Synergy
  - Control
    - Financial Management

- Learning
  - Business Codifier
    - Knowledge Management

Indirect Intervention
Corporate Centre Value Creation
Illustrative Superior Solution

Source of Corporate Centre Value Creation

Direct Intervention

Indirect Intervention

Resource
- Scope
  - IT / Business Process

Synergy
- Resource Mixer
  - Strategic HR

Learning
- Idea Facilitator
  - R&D Management

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Growth Matrix Strategy

- Assess most appropriate corporate centre configuration to generate strategic growth

- Market Development Strategy
- New Frontier Strategy
- Market Penetration Strategy
- Product Development Strategy

- Existing
- New

- Customers
- Products
Align Growth Strategy and Corporate Centre Configuration
Recent Hay Group’s research findings

CEO Roundtable Discussion (July 2010)
Asia CEOs are so focused on managing external issues such as capitalizing market opportunities, business expansion or securing financing (resource) that they often overlook the importance of building internal organizational strengths (learning) for future sustainability.

Winning on China

..... I could never get a real CEO role because of their organizational structure. The CEO role would always be a kind of representative role.

CEO soft drink company in China

... since the information for this is simply not available in this market. This means that you need to make decisions on gut feel, which may not always be possible to logically explain.

Managing Director of European bank in China
Conclusion

- Focus understanding on Corporate Centre Value Configuration
- Align corporate centre value configuration with growth strategy
- Synergy and Learning are much harder to master than Resources
## Six Value Creation Configurations

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<th>Resource</th>
<th>Synergy</th>
<th>Learning</th>
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<td><strong>Role of the Centre</strong></td>
<td>Centralization Force</td>
<td>Scope Expander</td>
<td>Control Expert</td>
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<tr>
<td>Maximize the economies of scale</td>
<td>Leverage existing best practice across organization</td>
<td>Establish excellent control process</td>
<td>Reconfigure organization resources</td>
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<tr>
<td><strong>Involvement</strong></td>
<td>Direct intervention</td>
<td>Direct intervention</td>
<td>Medium intervention</td>
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<td><strong>Leadership Style</strong></td>
<td>Directive</td>
<td>Pacesetting</td>
<td>Coaching</td>
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<td><strong>Functional Focus</strong></td>
<td>Supply chain management</td>
<td>IT and System management</td>
<td>Financial Management</td>
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**Objective**
- **Resource**: Leverage the centre resources to establish corporate advantage
- **Synergy**: Creation of synergy where the firm is worth more than the sum of its SBUs.
- **Learning**: Creation of new competitive knowledge/learning