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Organizations often struggle with corporate strategy because executives lack clarity on how parts of the business fit together to create and capture economic value. A simple framework can help leaders understand the relationship between corporate and business unit strategies.

Corporate strategy is the set of choices that diversified corporations such as IBM, Walt Disney, and Tata Group make to create and capture value across their businesses over time. It's a crucial driver of financial performance for multi-business enterprises. A recent meta-analysis found that a business unit's corporate parent accounts for more of its financial performance than the industry where that business unit competes. According to a McKinsey & Co. survey, 83% of senior executives said that the effective reallocation of resources across business units is the single biggest driver of revenue growth. [2]

Although executives understand the importance of corporate strategy in theory, many struggle to develop one in practice and link it to business unit priorities. According to a separate survey of nearly 2,000 managers running multi-business corporations, only one in five executives said their company had an effective process for developing and revising corporate strategy. [3] Just one-third of respondents said that their corporate strategy process and business unit strategy reviews were fully integrated. [4]

n our experience, organizations often struggle with corporate strategy because executives lack clarity on how the parts of the corporation fit together to create and capture economic value. Unless executives have a shared understanding of the relationships between corporate headquarters and the business units and among different businesses, they risk talking past one another when discussing strategy. We have helped dozens of top teams formulate their strategy, and along the way we have found that a simple matrix can help crystallize how the parts of the business fit together to maximize performance. Once executives come to a shared understanding of this fundamental issue, they can decide who should lead the strategy development process and how to integrate corporate and business unit strategies.

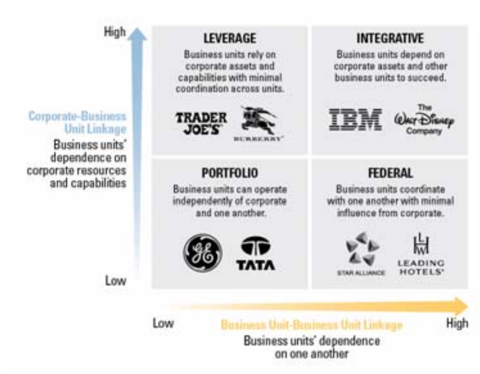
Most of the research on corporate strategy emphasizes how the corporate parent assembles its portfolio of businesses and how it adds value to each business unit. [5] n our matrix, we represent this relationship with the vertical axis, labeled Corporate-Business Unit Linkage, which measures how reliant the business units are on corporate resources and capabilities to make money. [6] (See "Defining the Four Logics of Corporate Strategy.") Companies such as Trader Joe's and Burberry Group score high on Corporate-Business Unit Linkage because their stores depend completely on corporate assets to succeed. Indeed, if you stripped a Trader Joe's store of the company's brand, economies of scale, and distinctive portfolio of private-label products, all you'd have left is an undifferentiated local grocery store. Private equity firms' portfolio companies, which typically operate as stand-alone entities, lie at the other extreme of the Corporate-Business Unit Linkage dimension.

When assessing where your company lies in terms of the linkage between corporate and business units, focus on capabilities and resources (such as the ability to develop new products or brand) that are critical to creating and capturing economic value. If corporate shared services (for example, human resources, legal, or accounting) could be easily outsourced, they aren't strategic — just convenient. The key question isn't whether business units run independently of corporate but the extent to which they *could*.

The Business Unit-Business Unit Linkage (shown on the horizontal axis of "Defining the Four Logics of Corporate Strategy") represents how dependent the business units are on one another to create and capture value. At the left are companies such as General Electric and Tata Group whose portfolio companies run independently of one another. At the other end of the spectrum are companies such as IBM, where the different business units (in this case, consulting, software, hardware, and financing) need to work together to provide integrated solutions to customers.

Defining the Four Logics of Corporate Strategy

The matrix below plots four distinct logics of corporate strategy. As shown here, the linkages are on a continuum from low (virtually independent) to high (completely dependent).



Combining the dimensions into a two-by-two matrix results in four distinct ways to think about corporate strategy:

- **Portfolio:** "Portfolio" logic guides traditional conglomerates such as GE and Tata Group as well as private equity firms such as KKR & Co. and The Blackstone Group.

- **Leverage:** Companies whose business units make heavy use of the corporate brand, technology, and other expertise such as Trader Joe's and Burberry pursue a "leverage" logic.

- **Federal:** The "federal" logic includes loose confederations of businesses that band together to pass business to one another, jointly lobby regulators, or share best practices, all without a powerful corporate parent. Examples include Star Alliance in airlines and The Leading Hotels of the World in lodging.

- **Integrative:** The "integrative" logic describes companies in which business units rely both on corporate assets and one another to succeed. For example, Walt Disney theme parks, movie studios, consumer products, and children's television divisions all use the company's iconic brands and characters to increase customers' willingness to pay, and they generate revenues by cross-promoting and selling one another's products.

How do leaders know which logic applies to their company? Answering the questions in "Assessing the Logic of Your Corporate Strategy" will help you place your company on the matrix.

Assessing the Logic of Your Corporate Strategy

Corporate strategy is the set of choices diversified companies use to create and capture value across the parts of the business. The choices are largely driven by how business units work with one another and how they use corporate resources and capabilities. The questions in this chart can help you crystallize the underlying logic that drives your corporate strategy. Then calculate the average for the linkage between corporate and business units and the average for questions on business units' dependence on one another. These averages will help you plot where your organization falls on the matrix in "Strategies by Quadrant." Use the boxes as guidance for what form the strategy should take in each quadrant.

Corporate-Business Unit Linkage: Units' dependence on corporate resources and capabilities	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Corporate brands, technology, and other resources allow our units to charge a price premium relative to competitors.		2	3	4	5
Corporate economies of scale, bulk purchasing, operational expertise, or other factors give our		12	3	4	5

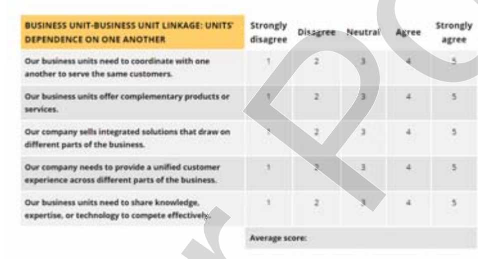
Corporate-Business Unit Linkage: Units' dependence on corporate resources and capabilities	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
business units a significant cost advantage relative to competitors.					
Corporate resources or capabilities are hard to imitate and protect us from rivals and new entrants.		12	3	4	5
Switching from corporate services (for example, legal, human resources, or accounting) to outside vendors would dramatically hurt the performance of business units.		2	3	4	5
Our business units could not compete as		12	3	4	5

Corporate-Business Unit Linkage: Units' dependence on corporate resources and capabilities	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
stand-alone businesses without corporate support.					
	Average score:				

CORPORATE-BUSINESS UNIT LINKAGE: UNITS' DEPENDENCE ON CORPORATE RESOURCES AND CAPABILITIES	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Corporate brands, technology, and other resources allow our units to charge a price premium relative to competitors.	1	2	3	4	5
Corporate economies of scale, bulk purchasing, operational expertise, or other factors give our business units a significant cost advantage relative to competitors.	1	2	3	4	5
Corporate resources or capabilities are hard to imitate and protect us from rivals and new entrants.	1	2	3	4	5
Switching from corporate services (for example, legal, human resources, or accounting) to outside vendors would dramatically hurt the performance of business units.	1	2	3	4	5
Our business units could not compete as stand-alone businesses without corporate support.	1	2	3	4	5
	Average score:				

Business Unit-Business Unit Linkage: Units' dependence on one another	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Our business units need to coordinate with one another to serve the same customers.		2	3	4	5

Business Unit-Business Unit Linkage: Units' dependence on one another	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Our business units offer complementary products or services.		2	3	4	5
Our company sells integrated solutions that draw on different parts of the business.		2	3	4	5
Our company needs to provide a unified customer experience across different parts of the business.		2	3	4	5
Our business units need to share knowledge, expertise, or technology to compete effectively.		2	3	4	5
	Average score:				



BUSINESS UNIT-BUSINESS UNIT LINKAGE: UNITS' DEPENDENCE ON ONE ANOTHER	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Our business units need to coordinate with one another to serve the same customers.	1	2	3	4	5
Our business units offer complementary products or services.	1	2	3	4	5
Our company sells integrated solutions that draw on different parts of the business.	1	2	3	4	5
Our company needs to provide a unified customer experience across different parts of the business.	1	2	3	4	5
Our business units need to share knowledge, expertise, or technology to compete effectively.	1	2	3	4	5
	Average score:				

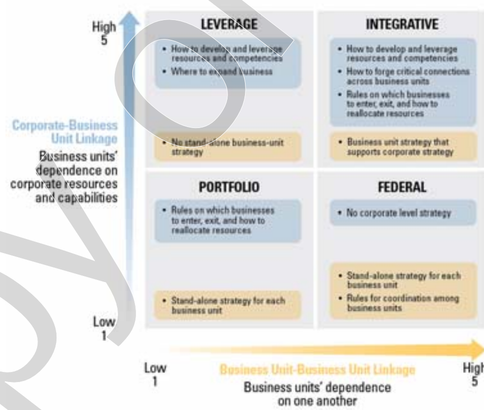
Not all business units in the *integrative quadrant* are equally dependent on corporate resources or on other business units. For example, Pacific Investment Management Co. (PIMCO), the large asset-management organization based in Newport Beach, California, has historically enjoyed considerable autonomy from Allianz, its German parent. Some corporations organize their business units into clusters of similar companies that closely coordinate. The industrial conglomerate Danaher, for example, has acquired hundreds of businesses over the past 30 years and combined them into clusters in areas such as dental and life sciences and diagnostics. The businesses within each cluster work closely together to serve the same customer segments, but collaboration across clusters is less important. If your organization depends on external partners or pursues a platform strategy, be sure to consider the outside stakeholders when plotting your position on the Business Unit-Business Unit Linkage axis.

The relationships among the various parts of the business can evolve over time. To offer customers a seamless experience, retailers such as Burberry are forging tighter links across their historically autonomous online operations and physical stores. When analyzing your own organization, start by understanding your current position but focus on where you want the company to be in the future. Functional and shared service activities should follow any shifts in corporate strategy. For example, if you want to shift from the *portfolio quadrant* to the *leverage quadrant*, shared services must migrate from having an exclusive focus on business unit priorities to supporting the overall corporate strategy.

By understanding which logic of corporate strategy they want their business to follow, executives can develop the right type of strategy for individual business units and the enterprise as a whole. In the portfolio logic, for example, corporate strategy will focus primarily on developing guidelines for deciding which businesses to enter, fund, or exit. At the same time, each business unit will need to have its own stand-alone strategy. In the integrative quadrant, in contrast, corporate will need rules for managing the portfolio, developing and leveraging corporate resources and capabilities, and managing interdependencies across units. In that quadrant, business units will need strategies that allow them to win as stand-alone entities while at the same time aligning with the corporate strategy. (See "Strategies by Quadrant," which provides guidance on what corporate and business unit strategy might look like for each logic.)

Strategies by Quadrant

Plot your average scores from "Assessing the Logic of Your Corporate Strategy" for your Corporate-Business Unit and Business Unit-Business Unit linkages on this matrix. Once you have determined which quadrant your organization falls into, the blue shaded text will provide guidelines on the form the corporate strategy should take, and the gold shaded text will provide guidelines for business-unit strategies.



Once leaders agree on the right logic of corporate strategy for their organization, they can formulate a strategy with an eye toward implementation. To translate their strategy into action, leaders should articulate a handful of strategic priorities to serve as guidelines for activities, priorities, and investments throughout the organization. Our article titled "How to Develop Strategy for Execution" describes the process for translating strategy — at the business unit or corporate level — into concrete objectives to drive results.

About the Authors

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. Estimates of the relative importance of corporate, industry, and business unit factors on business unit financial performance vary across studies employing different samples and methodologies. For a recent meta-analysis that puts these divergent findings into context, see B.S. Vanneste, "How Much Do ndustry, Corporation, and Business Matter, Really? A Meta-Analysis," Strategy Science 2, no. 2 (June 2017): 121-139.

2. Y. Atsmon, "How Nimble Resource Allocation Can Double Your Company's Value," August 2016, www.McKinsey.com.

3. McKinsey & Co., "Creating More Value With Corporate Strategy: McKinsey Global Survey Results," January 2011, www.McKinsey.com. Results based on an online survey with 2,313 executives, most of whom worked at multi-business corporations representing a cross-section of industries, geographic markets, and functions.

4. McKinsey & Co., "Creating More Value With Corporate Strategy," exhibit 6. ntegration of corporate strategy process with business unit strategy reviews of 33.8% is the weighted average of effective developers of strategy (n=151) and the rest of respondents (n=1,793).

5. For influential articles on how corporate parents add value to their business units, see M.E. Porter, "From Competitive Advantage to Corporate Strategy," Harvard Business Review 65, no. 3 (May-June 987): 43-59; and A. C ampbell, M. Goold, and M. Alexander, "Corporate Strategy: The Quest for Parenting Advantage," Harvard Business Review 73, no. 2 (March-April 1995): 120-132.

6. See A.M. Brandenburger and H.W. Stuart Jr., "Value-Based Business Strategy," Journal of Economics & Management Strategy 5, no. 1 (March 1996): 5-24. We use making money as shorthand for value creation and capture.

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