

Designing the Corporate Center

How to Turn Strategy into Structure



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Designing the Corporate Center

How to Turn Strategy into Structure

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AT A GLANCE

CEOs of multinational corporations are under constant internal and external pressure to add value to the portfolio of businesses so that the whole is worth more than the sum of its parts. Many CEOs, however, struggle to devise a strategy for the corporate center and to translate that strategy into an organizational design that actually adds value. In this report, we delineate six basic corporate parenting strategies and explore how best to design a corporate center tailored to each strategy.

STRATEGY SHAPES THE CORPORATE CENTER DESIGN

What does each parenting strategy imply about optimal shape, scope, processes, and required competencies of the corporate center? We specify the activities through which the corporate center exerts control and the areas in which it interacts with business units.

CONSISTENCY IS THE KEY TO EFFECTIVE DESIGN

Accurately translating a parenting strategy into reality requires designing a center whose structure, people, processes, and tools reflect and support the strategy. This report can help CEOs assess whether the design of their corporate center is clear and consistent with their approach to parenting.

IF THERE IS ONE overriding imperative for CEOs, it is to add value to the portfolio of businesses so that the whole is worth more than the sum of its parts. Such value creation requires steering by the corporate center—whether across businesses, across regions, or across functions. But whatever form that steering takes, the corporate center must not only choose its optimal parenting strategy but also design an organization that translates that strategy’s value-creation logic into practice. Many CEOs, however, struggle to translate strategic logic into action, and as a result, many corporate centers still fall short of their full value-creation potential.

The pressure to improve the center’s value creation is unrelenting and comes from all quarters. The capital market demands constant value creation and is quick to penalize corporate shares—and CEOs—if they fail to deliver. Analysts and shareholders pay close attention to valuation discounts. They are also quick to sound the alarm when overhead cost controls appear to be weakening. They compare the corporation against competitors that demonstrate excellence and ask why the corporation can’t keep up.

Just as intense are the internal demands for constant value creation. Boards look for quick results from mergers and acquisitions (M&A) and press for corporate strategies that add value to the combined enterprise. Business units complain that the center insists that they engage in activities that impose costs and operating constraints without seeming to provide offsetting benefits. In the worst cases, these conflicts can paralyze the whole organization.

In their own ways, the markets, boards, and business units are all asking the same urgent question: What is the corporate parent doing to add value to the business units? It is no longer sufficient to assemble a corporate portfolio of good businesses. Corporate stakeholders have shifted their focus from the specific competitive advantages of individual units—such as market share, technology, or brands—to the competitive advantage at the corporate level; that is, to the parenting advantage.

Effective parenting strategies add value in many different ways. Some promote excellence in key business functions through clear guidelines; some share competencies among business units. Others improve decision quality, attract game-changing talent, or build a high-performance culture in each unit.

The Boston Consulting Group made the case for formulating an effective parenting strategy in the 2012 report, *First Do No Harm: How to Be a Good Corporate Parent*. Drawing on the experiences of our clients, we argued that there is no single “right”

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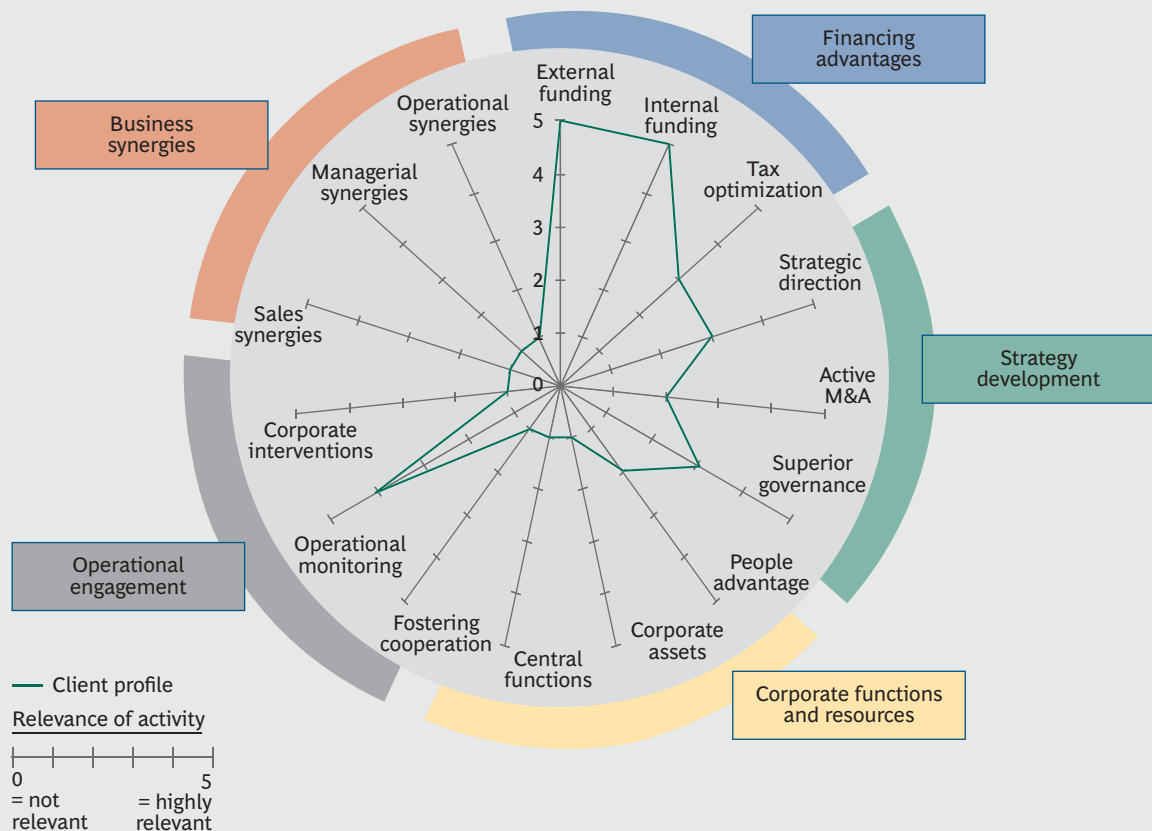
parenting strategy—what’s best for one corporation might not be suitable for even its closest and most comparable rival. Adopting general best practices is therefore of limited value. Instead, we encourage companies to systematically assess the fundamental levers by which a corporate parent creates value. (See Exhibit 1.)

Understanding how corporate parents add value is the first step in devising a parenting strategy and in reconsidering the corporate center setup. The next step is to ensure consistency among the structure, people, processes, and tools deployed to execute the strategy—including best practices that are specific to a particular parenting approach.

By analyzing the fundamental levers that companies can use to add value to their businesses, we identified six basic parenting strategies, arranging them in a taxonomy based on their degree of direct engagement with business units. In practice, corporations often follow hybrids or variants of the basic strategies. As an aid to understanding, however, we focus on the six archetypes throughout this report.

At one extreme is the *hands-off owner*, which, as its name implies, allows the business units virtually complete operating autonomy and requires them only to file regular statutory reports to the parent. At the other extreme is the *hands-on*

EXHIBIT 1 | Which Levers Does the Corporate Center Use to Create Value?



Source: BCG analysis.

Note: Since our 2012 report, the terminology in this exhibit has changed slightly to reflect BCG’s evolving understanding of the issue.

manager, an approach that assumes all responsibility for operating the business units, which maintain autonomy only over execution. Between these extremes lie four remaining parenting strategies: *financial sponsor*, *family builder*, *strategic guide*, and *functional leader*. (See the sidebar “The Six Types of Corporate Parenting.”) The

THE SIX TYPES OF CORPORATE PARENTING

Through its extensive experience working with clients on corporate-center design issues, BCG has identified six archetypal parenting strategies. In the business world, corporate centers are rarely “pure” examples of any single archetype—in practice, most parenting strategies are variants of the basic strategic types. But most corporate centers have, at least implicitly, a single *prevailing* parenting strategy, which can be assigned to one of the following six categories.

Hands-off Owner. This extremely cautious, conservative approach calls for the corporate center to engage primarily in portfolio development, adding new businesses to its portfolio and divesting others but exerting no central control over individual businesses. This strategy is, for example, typically followed by state-owned investment funds.

Financial Sponsor. The center of the financial sponsor exists primarily to provide financing advantages and governance oversight to the business units, with minimal involvement in strategy and operations. This strategy tends to be the province of traditional private-equity firms and financial holding companies.

Family Builder. The family builder¹ maintains a limited level of engagement with the units, with its main value-creating activities confined to providing financing and developing a

synergistic portfolio; that is, these corporations assemble businesses with natural synergies in, say, production and sales. This strategy is commonly seen at diversified fast-moving-consumer-goods companies.

Strategic Guide. The strategic guide’s center plays an active role in formulating the strategies of business units and the overall enterprise, with little engagement in other phases of the business. The primary adherents of this strategy are diversified conglomerates with large portfolios of independent, but related businesses.

Functional Leader. The main contribution to corporate value made by the functional leader comes from its promotion of functional excellence and the cost-efficient bundling of services. This strategy is most often seen at large, integrated multibusiness corporations.

Hands-on Manager. This center is the most activist corporate parent, engaged closely in the management and operations of each business unit and leaving the units responsible only for execution. This strategy is most appropriate for companies with a focused portfolio of businesses operating in mature industries.

NOTE

1. BCG’s earlier report, *First Do No Harm: How to Be a Good Corporate Parent*, named this strategy Synergy creation.

optimal parenting strategy must be aligned with both the needs of the business units and the capabilities of the corporate center. For example, a more engaged parenting strategy is generally the optimal choice for the parent of a small and homogeneous portfolio of business units in mature industries. But even in these situations, an engaged strategy can backfire if the corporate center lacks the expertise required to execute it.

In this latest report, we turn to the question of designing the corporate center once top management has settled on a parenting strategy. In essence, we ask what the parenting strategy implies about the optimal shape, scope, processes, and required competencies of the corporate center.

Through which activities does the center exert control? What are the lines of authority—that is, at what level do the board and corporate center interact with the business units, and where are those interactions most intense? What decision rights do the business units retain? In short, what is the mandate of each of the six parenting strategies, and what kinds of organizational design do those mandates dictate?

Strategy Shapes the Governance Model

Each parenting strategy takes a distinctive approach to three specific aspects of governance. As Exhibit 2 illustrates, these are:

- **Parental Control Mode.** What activities and results does the corporate center track? What are the main reporting lines?
- **Parental Decision Rights.** What decisions does the corporate center make, and what decisions are made by the business units?
- **Parental Functional Mandate.** How does the center lead, and to what depth? What functional mandates does it give the business units (for example, direction setting, policies, concepts, or execution)?

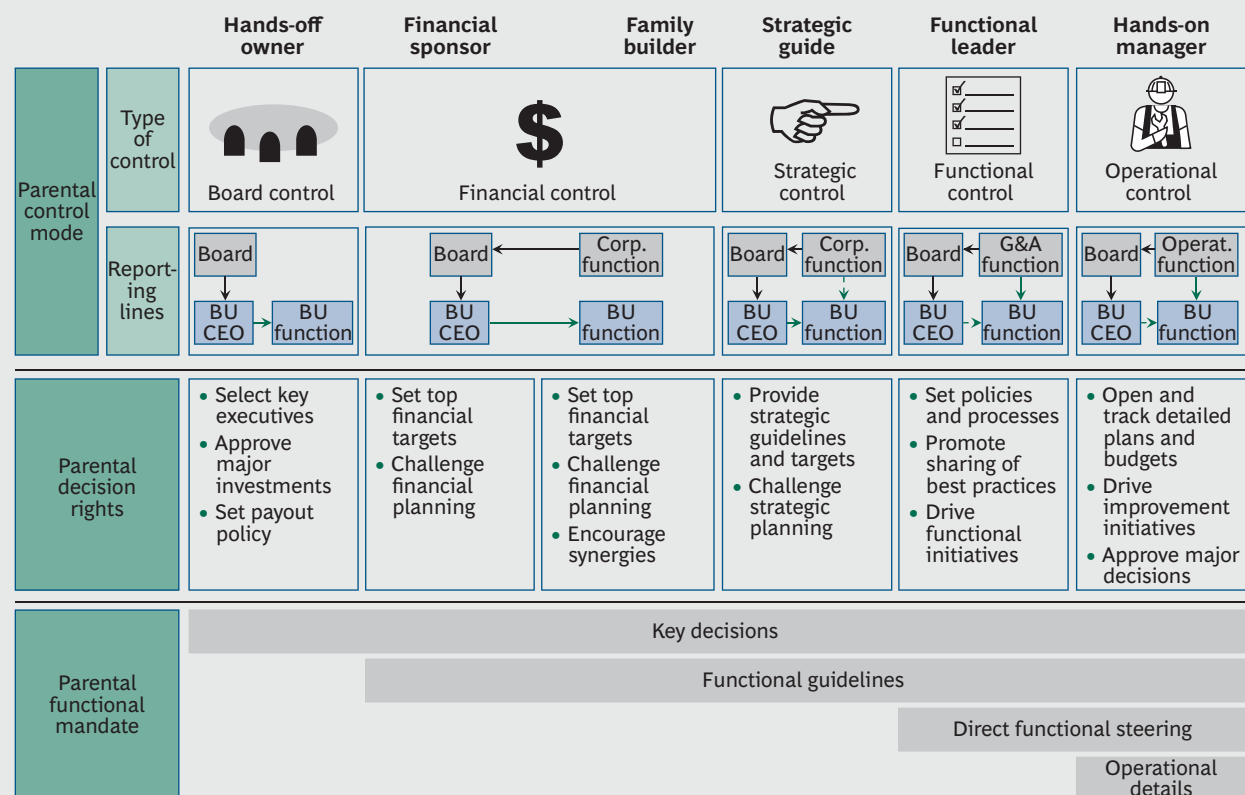
What is the mandate of each of the six parenting strategies, and what kinds of organizational design do those mandates dictate?

Only when those governance principles are clarified can the implications for organizational design be determined. The parent's mode of control, its decision rights, and its functional mandate must be consistent with the center's parenting strategy for the value-creation logic to translate into actual value created.

Here, we review the parental control mode, decision rights, and functional mandate of each parenting type. In the next section, we consider the organizational implications of these aspects.

The *hands-off owner* exerts control through its board, which oversees the business-unit heads, who in turn oversee the business units. Its parental control is restricted to legally required statutory information in company reports. The board approves only major decisions, such as selecting key executives, approving major investments, and setting payout policy. Detailed decision rights in financial, strategic, and operational matters, as well as execution, are left to the units.

EXHIBIT 2 | The Type of Governance Varies by Parenting Strategy



Source: BCG analysis.

The *financial sponsor's* mode of control is financial. The center provides guidance in the form of top-down financial targets and challenges the financial plans of the business units. Corporate-level functional departments advise and report to the parent's board. The board oversees the business-unit CEOs, who in turn oversee functions at the business level. The center retains final authority over financial decisions, leaving strategic and operational decisions as well as execution to the business units.

The *family builder*, like the financial sponsor, steers by controlling financial resources. The center determines and monitors financial key performance indicators (KPIs) and reviews the units' financial plans, but also challenges their plans for exploiting and realizing synergies. Financial decisions are within the center's purview; strategic and operational questions are decided at the business-unit level.

The *strategic guide* steers the organization by taking strategic control. It provides the units with strategic guidelines and targets and challenges the business units' strategic plans. To reinforce its control, the corporate-level strategy function shares responsibility with business-unit CEOs for overseeing the strategy of the business units. The center handles financial and strategic decisions for the business units, which retain rights for operational decisions and execution.

The *functional leader* exerts financial, strategic, and functional control. It sets policies and processes for key corporate functions and drives the application of best practices and the execution of functional excellence initiatives throughout the organization. The center's general and administrative functions, such as finance, strategy, and human resources (HR), have primary oversight responsibility for their counterparts at the business units. The units usually also report along a dual reporting line to the business-unit CEO. The center maintains rights over financial decisions as well as functional standards, while the business units maintain rights over operational decisions and execution within the given standards.

Typically, the functional leader is selective about the functions it focuses on. Its primary focus is usually on support functions that enable the business, including talent management and leadership development, performance management, information technology (IT), and intellectual property protection. In addition, functional leaders can heavily leverage shared services to build cost advantage and facilitate global integration and collaboration. Finally, functional leaders might provide strategic capabilities via competence centers related to sales, marketing, or purchasing.

The *hands-on manager* engages with the organization primarily by controlling operations. It creates detailed plans and budgets for each business unit and drives improvement initiatives at the business-unit level. Operating functions at the business units report to their corporate-level counterparts and to the business-unit CEO, both of which report to the center's board. As a result, the center has the authority to make operational decisions as well as financial and strategic ones. The responsibility of the business units is mainly reduced to executing tasks.

It is important for companies to be clear about their parenting strategy and to establish governance models consistent with it. Inconsistency or confusion about parenting strategy—both of which produce confusion about lines of authority and responsibility—almost always create conflict and struggles for power.

Such confusion and conflict was evident several years ago at a highly diversified European industrial goods company. The conflict in the organization was rooted in a misalignment among members of the top management team and between the center and divisions. A group of newly appointed corporate managers tried to advance a functional leadership agenda because they had observed it employed at other companies and they perceived it as best practice.

As part of the center's push to assert functional authority, the head of corporate HR imposed standardized groupwide grading schemes, training programs, job rotation, and similar so-called best practices on the business units. But the groupwide standards, while well intended, were ill-suited to a diverse collection of businesses whose entrepreneurially minded managers were long accustomed to a high degree of autonomy.

Consequently, the business-unit heads resisted the center's push to exert functional leadership at the organization. In the ensuing conflict, a number of managers were

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dismissed, and many who remained felt deeply frustrated. The conflict was resolved only when the center, following a systematic review of its role, curtailed efforts to impose functional leadership governance. The center reverted to a role as a strategic guide, which was best aligned with the center’s capabilities and the needs of the business units—and thus followed a convincing and consistent value-creation logic.


Different Strategies Imply Different Organizational Structures and Activities

Because the mandates and activities of the six parenting strategies differ so widely, the design of their corporate centers is necessarily and widely different. Specifically, the centers vary along five dimensions: organizational design; processes; people and behaviors; systems and tools; and the use of vendors and sourcing. (See Exhibit 3.)

ORGANIZATIONAL DESIGN

The organizational design derives directly from the parenting strategy. Exerting control only via the board, the hands-off owner does not have dedicated corporate functions, instead maintaining only a support group of five to ten advisory or administrative employees. The centers of the financial sponsor and family builder are also relatively lean, except for the finance function, which is well-staffed to exert financial control.

EXHIBIT 3 | What Does Each Parent’s Corporate Center Look Like?



	Hands-off owner	Financial sponsor	Family builder	Strategic guide	Functional leader	Hands-on manager
Organizational design	Very lean, no dedicated corporate functions	Strong finance function, otherwise lean	Strong finance function (including M&A), otherwise lean	Strong strategy and performance-control functions, otherwise lean	Strong support functions; shared services in separate units	Broad scope of central functions, including operational functions
Processes	Standard board interactions	Lean processes for financial control	Lean processes for financial control and enabling collaboration with business units	Lean processes for strategy development and review	Standards for functional steering, service providing, and best-practice sharing	Sophisticated processes for planning, budgeting, and decision making
People and behaviors	Single advisors of the board with sufficient seniority	Few high-caliber people with strong financial expertise	Few high-caliber people with strategic industry and portfolio vision	Few high-caliber people with strong strategic and industry expertise	Functional experts driven to achieve excellence in support	Operational managers with extensive business experience and industry vision
Systems and tools	Not formalized	Tools for financial reporting	Tools for financial reporting	Tools for strategy development and financial reporting	Tools for financial, strategic and functional reporting; central platforms for support services	Tools for detailed operational steering; central operational platforms
Vendors and sourcing	Not applicable	Some leverage of external experts	Some leverage of external experts	Strong leverage of external experts	Outsourcing of transactional services when cost-efficient	Outsourcing of corporate and transactional services when cost-efficient

Source: BCG analysis.

The strategic guide's finance function is somewhat less comprehensive, but it still calls for rigorous control of performance to track strategic execution. Of course, its center also has a highly skilled and developed strategy function, because strategic impulses are its primary means of control. By contrast, the functional leader's corporate center is more complex, with a large support staff in all functions and separate units that provide shared services such as accounting or HR administration. The hands-on manager's organizational design includes not only corporate-level administrative functions but also corporate-level operational functions, such as research and development, production, and marketing.

PROCESSES

As with organizational structure, corporate processes translate parenting strategy into concrete operational terms. (For an example of the processes adopted under different strategies, see the sidebar "How Different Parents Handle Capital Allocation.") While the hands-off owner does not engage with business processes beyond standard board interaction, others—the financial sponsor, family builder, and strategic guide—use selected central processes as an instrument of control. The financial sponsor's signature process is, naturally, the financial budgeting and reporting of the business units. The family builder's key processes also include overseeing collaboration among business units, which are the source of synergies. The strategic guide centralizes the processes of strategy development, planning, and review.

The financial sponsor, family builder, and strategic guide require a few high-caliber people with skills that suit their respective parenting strategies.

The functional leader and hands-on manager are involved far more extensively in processes. The functional leader's parenting strategy depends on standardizing and centralizing key processes for its success. It creates value by ensuring functional excellence across the corporation, either by directly delivering cost-effective services to the business units or by reviewing the units for best practices that can be exported to or imposed on the other units. The hands-on manager's involvement in processes extends to prescribing details of execution, with particular emphasis on budgeting, planning, and operational decision-making.

PEOPLE AND BEHAVIORS

Different parenting strategies rely on different types of people and behaviors to succeed. The financial sponsor, family builder, and strategic guide require a few high-caliber people with skills that suit the respective parenting strategies. The financial sponsor, for example, counts on a few financial experts, while the family builder also needs staff with the strategic insight to maximize synergies from the portfolio.

The strategic guide's key people are experts at developing, implementing, and communicating strategy; they also require superior industry expertise. The functional leader requires a center staff that combines functional know-how with an understanding of business needs so that the center can strike the right balance between central synergies and local requirements and autonomy. The hands-on manager, by contrast, needs a central team of skilled operational managers with deep industry know-how.

SYSTEMS AND TOOLS

The more engaged strategies—such as the functional leader and the hands-on manager—are involved in developing tools and harmonizing their use to directly support

HOW DIFFERENT PARENTS HANDLE CAPITAL ALLOCATION

No matter what the parenting strategy, the corporate parent is a key player in the capital allocation process. Yet no two centers handle capital allocation in precisely the same way.

The hands-off owner handles capital allocation only at the highest level, determining dividend policy, approving M&A, and authorizing substantial investments.

The financial sponsor and family builder are similarly disengaged from detailed capital-allocation decisions. Rather than choosing among individual investment projects, these two types of centers determine overall investment budgets, steering the units by establishing clear expectations for the free cash flow that business units must generate.

The strategic guide uses portfolio management as its main instrument in the capital allocation process, assigning capital to the business units according to their respective strategic roles. For example, investments by business units classified as cash cows may have clearly imposed limits to avoid overspending in mature markets. By contrast, growth businesses may require significant capital from the center in order to meet their strategic targets. And businesses classified as turnaround candidates may be given very strict investment limits with a short payback time.

Like the strategic guide, the functional leader determines the guidelines for approving capital investments, establishing the metrics

and other criteria used to evaluate investment proposals. In addition, the functional leader prescribes the processes for implementing the guidelines—for example, defining how projects advance through the stage-gate process and determining the composition of the investment committee.

The hands-on manager takes full control of detailed capital-allocation decisions, selecting individual projects for investment, monitoring step-by-step execution of the projects, and setting their operational budgets.

Shifts in parenting strategy can have profound effects on the way companies allocate capital. Consider the changes at a multinational chemical company when it moved to a strategic guide strategy after years of following a financial sponsor model.

Historically, the company used financial benchmarks, especially internal rate of return (IRR), to evaluate investments. Large projects required the center's approval, and overall investments were heavily dependent on the operating cash flows and investment histories of the business units seeking the capital.

This capital allocation method had proved unsatisfactory, in part because business-unit managers tended to estimate an unrealistically high IRR for their pet projects. What's more, because the center tended to reward business units with ample operating cash flow, mature businesses received the largest shares of capital, while

HOW DIFFERENT PARENTS HANDLE CAPITAL ALLOCATION (continued)

growth businesses suffered from insufficient funding. As a result, the corporation's growth rate had fallen behind that of the competition, and its market valuation had slipped.

When credit tightened in the wake of the financial crisis, the company had to rethink its approach to capital allocation. It became more of a strategic guide, assigning a strategic role to each business unit: cash cow, growth business, or turnaround. More than 50 percent of capital expenditures were allocated to growth businesses, while investment in cash cows was limited to less than 50 percent of their earnings before interest, depreciation, and amortization. Turnaround investments were authorized only if they showed a payback horizon of less than two years.

To evaluate the strategic roles of each business unit and to get to eye-level with the business-unit managers on

strategic matters, the company improved its performance-monitoring tools and processes to more accurately identify the sources of profitability. It also took a page from the private-equity playbook and hired carefully vetted external consultants to gain a deep understanding of all its diverse markets. The blend of external and in-house expertise enabled the center to distinguish fact from fiction in the business units' investment plans and thus make capital allocation decisions driven by superior strategic insight.

The change in approach paid off. After overhauling its approach to capital allocation, the company saw its growth rate accelerate beyond that of its peers and its market valuation improve.

operational activities and enable functional best practices. These practices are related to support functions such as talent management as well as business functions such as pricing. In addition, the more engaged parents often pursue broad IT standardization efforts, such as initiatives to harmonize enterprise resource planning (ERP) systems. The less engaged parents, by contrast, employ tools mostly for their own needs at the center, supporting their own steering and administrative functions.

Consistent with its role as a provider of financial resources, the financial sponsor designs and provides the tools for financial reporting, as does the family builder, which also focuses reporting on the realization of synergies. The strategic guide provides tools for financial and strategic reporting, but also defines the framework and process for strategic planning.

VENDORS AND SOURCING

The use of external service providers and outsourcing varies widely by parenting type. Aside from legal and tax experts, the financial sponsor and family builder make limited use of external experts. The strategic guide is more inclined to leverage business consultants and research firms on a regular basis.

By contrast, the functional leader and hands-on manager typically make heavy use of external service providers that offer cost-efficiency or a capability advantage. These parents typically make extensive use of outside experts for activities as varied as branding and communications, initiatives focused on functional excellence, the transfer of best practices, change management, and market analysis. The difference between these two types of parents is that the functional leader outsources supporting activities, while the hands-on manager may also outsource operational work, such as make-or-buy decisions for core business functions.

For any parenting strategy to succeed, the corporate center's design must be consistent with the parenting strategy. No tool, for example, will add value to the enterprise if it does not follow the strategic value-creation logic.

One company in the consumer-goods industry learned this lesson the hard way when its corporate IT department invested heavily to develop applications for its diverse business units. The units simply ignored the corporate IT tools because the applications were of little help in addressing the needs of the units' customers, and thus failed to augment the core corporate capabilities. The tools also failed to address the needs of the business units, which were generally satisfied with their existing proprietary tools. In short, the IT tools were inconsistent with an effective parenting strategy and thus failed to catch on with the business units.

Smart, Balanced Choices Are Key When Implementing Functional Leadership

The structure and activities of the functional leader's corporate center merit a closer examination, for the simple reason that many multinational corporations in mature industries successfully employ this parenting strategy to cope with the challenges of globally connected, contested, and complex businesses. These corporations have, to a large extent, optimized the stand-alone performance of their business units or country operations and thus look to groupwide activities to add value through the exploitation of economies of scale and scope or through global integration. Many corporations have followed this strategy with considerable success.

One such corporation is a large telecommunications provider operating in multiple countries. Partly to control costs, the corporation traditionally followed a hands-on strategy in its main market, where it operated a fully mature, highly regulated business. This strategy met with diminishing success as the corporation launched an international expansion into high-growth regions. Even as the corporation's business portfolio diversified, the corporate center maintained a hands-on approach more suitable for a homogeneous collection of mature businesses.

In keeping with the center's hands-on strategy, business units in high-growth markets were forced to implement an infrastructure solution that had been developed for the company's main market. The solution was a poor fit with the high-growth markets because it didn't account for legacy technology in their networks. In addition, the international markets gave a chilly reception to the center's push to sell new products and online services with predefined pricing schemes that didn't

Multinational corporations in mature industries successfully employ functional leadership to cope with the challenges of globally connected, contested, and complex businesses.

meet the needs of local customers. When center functions such as HR imposed strict operational guidelines and monitoring, the small, entrepreneurial subunits ignored central input and set up their own processes and tools better suited to their business needs.

Against this contentious background, the corporation engaged in a broad review of the center. Seeing the potential for a less invasive center to drive out inefficiencies and seek profitable growth opportunities, the corporation's leadership decided its optimal strategy was to refocus as a functional leader. This strategy would best match the company's diverse market environments while still realizing standardization and integration benefits where possible and practical. As envisioned, the redesigned center would drive selected initiatives undertaken to increase efficiency, capture synergies, promote best practices, or exploit growth opportunities across the different business units. At the same time, the center would be more selective on its initiatives and stay out of day-to-day operational decisions and execution—thus repudiating its former hands-on strategy.

Another company, this one in the consumer products industry, also made a strategic shift to become a functional leader—but this company was moving from a parenting strategy that combined elements of the financial sponsor and the strategic guide. Top management had reasoned that the center, by using a functional leader approach, could cut costs through standardization and simplification and capture global economies of scale. As a functional leader, the center would also be better able to manage global growth, more quickly integrate acquisitions, and provide leverage, scale, and expertise to spur start-up activities.

The challenge was to make smart trade-offs in design choices and to balance the imperative to realize global synergies with the need for local units to adapt to the idiosyncrasies of their markets.

To achieve these goals, the group installed strong central functions that drove the standardization of products, processes, and raw materials. It mirrored these functions at the regional level in order to steer local units. But business units chafed at the loss of local freedom. Global, regional, and local managers clashed frequently over whether global synergies or local adaptation should take precedence in business decisions. As is common in such conflicts, neither side understood the other's perspective, leaving both frustrated with their working relationship. Effective governance suffered. Short-sighted self-interest and bias prevented managers from making smart choices. The regional layer introduced an additional complication, being neither close to the market nor powerful enough to impose its will.

The company's solution was to place product managers within local business units—but, crucially, under centralized control. Countries were organized into clusters, and the regional layer was abandoned. These tactics are a typical outgrowth of the functional leader strategy. Companies that employ this strategy often reduce the center's headcount and increase business-unit resources. Those local resources, however, report to the center, thus blurring the formerly clear distinction between center and business units. In effect, the corporate center has less of a physical location and more of a virtual presence at each unit.

Companies deploying functional leadership often reduce the center's headcount and increase business-unit resources, but blur the distinction between center and business units.

In the case of this company, placing local product managers under central control ensured a deep understanding of local product requirements without diluting the center's authority to set and enforce guidelines. Thus, local business units no longer worked against global functions in deliberations over the balance between local requirements and global synergies. Although the move didn't make trade-off decisions any less complex, they were no longer the source of power struggles between the center and business units.

Successful implementation of the functional leadership strategy requires center management to view processes from a holistic, end-to-end perspective. Instead of considering corporate center and business-unit processes as discrete elements, the processes' effect on the whole activity chain from center to region to country must be considered. Without this holistic perspective, a functional leader can easily slip into the role of a value-destroying imperialist that ignores all local variations and the legitimate need to adapt to them.

There are additional means for a functional leader to keep in touch with local market variations and demands while realizing global synergies. Not only can the center exercise a functional leader's characteristic governance responsibilities, it can also opt to create shared-service facilities under central control. Such shared services enable the parent to impose global governance and capture enterprisewide synergies while also ensuring a service mentality toward local requirements. Guidelines and service-level agreements make the trade-off between global and local or business-unit interests explicit and thus manageable. More to the point, they ensure that the center's activities are truly value-creating.

Without a holistic perspective, a functional leader can slip into the role of a value-destroying imperialist that ignores local variations and the need to adapt to them.

Consistency Is the Key to Effective Design

A strategic guide that lacks a deep understanding of markets and their key success factors can't provide business units with the appropriate strategic insights. And a functional leader without superior functional expertise combined with business understanding has no practical means of fulfilling its organizational purpose. Indeed, the purpose of corporate center design is to translate the parenting strategy into operational reality.

Once a company's leaders have settled on a clear parenting strategy, the following checklist of questions can help them quickly assess whether the company's corporate center design is consistent with that strategy.

- Is the setup and governance of corporate functions consistent with the overall parenting strategy?
- Does the corporation have the right processes in place to help corporate functions add value to the entire organization?
- Is the corporate center staffed at the appropriate level—or is it over- or understaffed? Does the staff possess the right skills?
- Do corporate functions focus on generic best practices or pursue the best

practices that are proven for the chosen parenting strategy?

- Do the center's employees possess experience and skills consistent with the center's strategy? Are tools, such as IT, aligned with assigned functional roles—and are they really demanded and used by the business units?

Thoughtful answers to these questions can lead to a corporate center design that plays to the strengths of the corporation and meets the needs of the business units. We reiterate that there is no single parenting strategy that's right for every corporation. But by systematically approaching questions of strategy and design, senior leadership can optimize the ability of the center to add value and drive overall business success.

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