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Advanced Corporate Strategy
715 - ACST

Professor Yaakov Weber

Final assignment:

"Efficiency from within – How organizations grow to meet their needs for focus".

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“Efficiency from within - How organizations grow to meet their needs for focus”.

Abstract:

Acquisitions, alliances and divestitures represent strategic alternatives, “along a continuum of governance modes”. When organizational changes are needed, acquisitions and alliances may occur (boundary expansion), in complete analogy with the rationales for divestitures and alliances (boundary contraction), even though their motives may differ.

Firm-shaped assets optimization can be indeed seen as “favorable” ways to reflect remodeling (focus) capabilities of firms, from within, for further growth. Focalization then allows to conduct business with lower transaction costs than beforehand. The following “overview” will analyze how “inward strategic growth” can help corporate reshape themselves, to be in better positions to match the different operational stages they, and their businesses, shall be in.

- Most corporate restructuring is implemented through the use of spin-offs and sell-offs. When restructuring is necessary, spin-offs more than sell-offs best mitigate the information uncertainties created by the close, coordinated, and interactive management of strategic control systems. Spin-off is then a way to improve shareholder values, by increasing the efficiency of capital allocation, eliminating negative synergies, while the “alignment of managers’ and stockholders’ interests will maximize the combined equity of the firms that emerge from a spin-off”. For conglomerates that have traded at a persistent discount, a structural realignment of businesses, including restructuring actions such as a spin-off, may be warranted.

- In a multi-faced business environment, shareholders’ value is optimized through the continuous adjustment of the company’s portfolio of activities, agencies, transaction costs and resources allocations. Profit and Loss Centers are closely monitored, characterized and managed, taking into consideration as well the weight and agenda of the main shareholders, and their consideration for restructuring. Subsidiary divestment decisions are affected by subsidiary-level and network-level factors, the lower the synergies, the higher the “chance” of restructuration, the highest the degree of “difference”, the highest the likelihood for divestiture, either by voluntary sales or liquidation. As a result, subsidiaries performing badly or activities unrelated to the rest of the group will be likely candidates for a divestiture.

- The “managerial” or “business strategy” perspective of the firm, emphasizes diversity in firms’ capabilities and strategic approaches as the major determinant of the dispersion in profitability across firms. Variance in performance across firms is not solely the result of industry structural factors. Focusing attention toward the Business Units and treating both the corporate parent and industry in which a business unit is embedded as environments which affect business units profitability, may be the best approach to investigation of performance. Recombination of units is precursor to divestment, while simultaneously lengthening longevity of resources and activities, the firm attempting reconfigurations while realigning its resources.

- Intellectual Property Rights and out-Licensing can be used to leverage brand and unique capabilities, for quicker ways to expand and extend. Those action levers can help generate revenues and leverage the brand with mitigated risks, when business and brand strategy are aligned. A brand can be used to retain rights to the name in a foreign market, and licensing can accomplish this at a lower cost than direct entry. Licensing royalty rates might differ across country markets, and act as a leverage against opportunism, while protection of brand property must be given importance in the discussion of marketing assets. If the licensed products is to be phased out, no significant write-offs associated with internally developed product failures will be met and, as targeted demographics are outside of core business demographics, little to no impact will occur to the core business.

Introduction

High failure rates of Merger & Acquisitions (M&A), have been well documented over several decades and unanimity has been reached to assess the rate at around 80 percent of failure post-merges, even though the number of M&A over the years is still on the increase. Alternatives, such as Joint-Ventures (JVs), and Alliances, have been shown as more successful, yet they answer different needs and requirements than M&A. Rationale, nature and outcomes behind such "outward strategic growth" moves are many, and will not be a direct part of our discussions.

Acquisitions, alliances and divestitures have though in common to represent strategic alternatives, "along a continuum of governance modes", as cited by Villalonga and McGahan (2005), whereas greater integration is achieved through acquisitions, less integration through divestiture, with a middle ground found with JVs and alliances, which often are intermediary steps toward further acquisition or divestiture (Kogut, 1991; Chi, 2000; Folta & Miller, 2002). That reasoning leads to believe that when organizational changes are needed, from a transactional perspective, acquisitions and alliances may occur (boundary expansion), in complete analogy with the rationales for divestitures and alliances (boundary contraction), even though their motives may differ (Villalonga & McGahan, 2005). Sanders (2001), viewed acquisitions and divestitures as "alternative ways to increase the value of stock options", with own synergies, agency theories and transaction costs (*rationale*). Extended literature sees the need for divestiture as a consequence (*nature*) of prior acquisitions (Porter, 1987; Ravenscraft & Scherer, 1987; Kaplan & Weisbach, 1992; Berger & Ofek, 1996), and as a substantial fraction (*outcome*) of M&A activity (Gilmour, 1973).

I have chosen though to carry the following investigation from an "inner dynamic approach to growth", as a counter argument for agency theory where "managers may engage in boundary-spanning transactions …. even when the transactions may be detrimental to shareholder value" (Jensen & Meckling, 1976; Jensen, 1986). Firm-shaped assets optimization (e.g. spin-off, sales, recombination, licensing…) can be seen as "favorable" ways to reflect remodeling (focus) capabilities of firms, from within, for further growth where focalization will allow (leaner) firm to conduct business with lower transaction costs than previously met within the company. I have dubbed my "approach" to the topic as the "Corporate growth diamond" as illustrated on **Figure 1**, with a dedication to the "inward strategic growth" part of it.

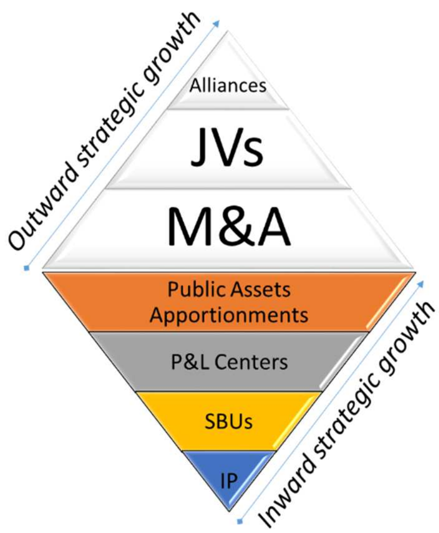

Figure 1: Corporate growth diamond

Further to the "limitative" (in my views) traditional efficiency argument, assessing that (reconfiguration view argues) "divestiture of unneeded assets is a key part of the post-acquisition reconfiguration process" (Villalonga

& McGahan, 2005), I will aim at covering how can corporate reshaping help companies lift themselves up, so to better match the different operational stages they, and their businesses, are and shall be in. Continuous search for higher efficiencies for stake- and share- holders profits, will aim at sustaining healthy and successful business processes, looking at strategic growth and efficiency from within.

I will successively look at Public Assets Apportionments, Profit and Loss Centers, Strategic Business Units and Intellectual Property Rights, assessing for each their rationale, nature and outcomes, with the aim of drawing a "Haspeslagh & Jemison-inspired" relatedness and autonomy matrix, which I will call the "4-step focus wheel", as shown on **Figure 7**, at the end of the document.

Public Assets Apportionments

Diversification strategy is, in part, reflected by the relatedness[1] of a firm's business lines (Bergh et al., 2008). In general, firms have one of five different portfolios of business lines: single, dominant, related-constrained, related-linked, and unrelated business (Rumelt, 1974; Bergh, 2001). The single, dominant, and related-constrained businesses receive the overwhelming majority of their revenues and incomes from a single group of related business lines, while the related-linked and unrelated businesses are highly diversified and oftentimes resemble holding companies and conglomerate firms (Bergh et al., 2008).

Research shows that most corporate restructuring is implemented through using spin-offs[2] and sell-offs[3] (Bruner, 2004; Gaughan, 1999). Rationale, nature and outcomes for divestitures[*] can differ and must be analyzed under several perspectives. Indeed Academics spin-offs (e.g. from Universities, Scientific Laboratories) answer needs which are differing from pure voluntary Corporate spin-offs (e.g. assets optimization), while differing as well (in lesser ways though) to Individuals (employees) spin-offs, where employees leave a company to start their own venture within the "vicinity" of scope (opportunity spin-off) of their former company. I will focus the following exposure on voluntary Corporate and Individuals spin-offs (as opposed to "necessary" spin-offs), for ease of demonstration. Forced (necessary) divestitures are characterized by different contexts, motivations and performance implications (Boudreaux, 1975; Kudla & Mclnish, 1981), which are mapped on **Figure 2**, summarizing the possible categorization of corporate spin-offs.

[1] Noun: *The state of being connected or associated, the state of having developed from the same origin*. Retrieved March 12, 2014 from http://www.collinsdictionary.com/dictionary/english/relatedness

[*] I will here call spin-offs "divestiture" (for ease of reading) even though they are not necessarily divested from the portfolio owned by the firm's share-holders.

[2] *The creation of an independent company through the sale or distribution of new shares of an existing business or division of a parent company*. Retrieved March 12, 2014 from http://www.investopedia.com/terms/s/spinoff.asp.

[3] *The rapid selling of securities, such as stocks, bonds and commodities*. Retrieved March 12, 2014 from http://www.investopedia.com/terms/s/sell-off.asp

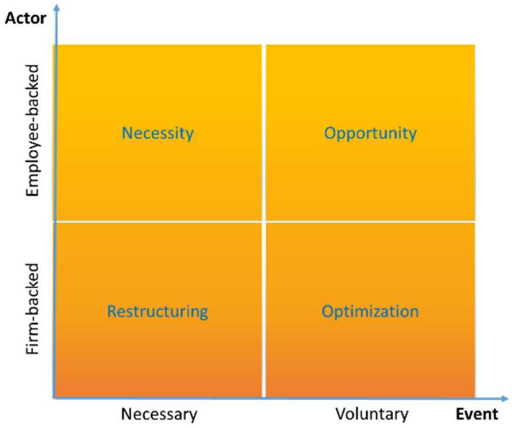

Figure 2: Categorization of Corporate spin-offs

Rationale

When restructuring is necessary, spin-offs more than sell-offs best mitigate the information uncertainties created by the close, coordinated, and interactive management of strategic control systems. Spin-off is then a way to improve shareholder values, by increasing the efficiency of capital allocation (Gertner et al., 2002), and by allowing “heterogeneous business units to establish capital structure that are better suited to the nature of their assets or growth prospects” (Mehrota et al., 2003). Potential gain is then attained by separating business with different optimal capital structures (Hite & Owers, 1983; John, 1993; Jongbloed, 1998), eliminating negative synergies (increase of future cash flows), while the “alignment of managers’ and stockholders’ interests will maximize the combined equity of the firms that emerge from a spin-off” (Mehrota et al., 2003). Cash generation, elimination of unrelated businesses or poor performers and securing clearance for future acquisitions (Woo et al., 1992), are also motivations for the divesting firm.

More dynamic than a sell-off (one off) when cash is not the main driver for sales (asset sales are often motivated by liquidity constraints or a desire to pay down debt), it allows to refocus on corporate synergy and is usually beneficial in terms of investors’ welfare (Hakansson, 1982). “When firms that have high specialization and low levels of diversification (e.g. single businesses, dominant businesses, related constrained businesses) adopt spin-offs, the implementation method that mitigates their sources of asymmetries, they tend to realize higher financial performance than when such firms use sell-offs. When firms that have low specialization and high levels of diversification (related-linked, unrelated businesses) use sell-offs, they tend to have higher financial performance than their peers that adopt spin-offs” (Bergh et al., 2008).

Large spin-offs (i.e. equity value at least 10% of market value of firm’s common stock) have “stronger positive effect on shareholder wealth, relative to small spin-offs” (Miles & Rosenfeld, 1983). Significant abnormal announcement returns on the announcement of spin-off (higher for “larger” spin-offs than for “smaller” ones) is expectedly attributed to improved managerial efficiency, reduced information asymmetry, and relaxed regulatory and tax constraints. The elimination of negative synergies is the most commonly cited reason for positive stock price reaction to spin-offs.

Spin-offs thus reduce information asymmetries that arose in strategic control systems, transfer difficult-to-value assets to a capital market where they become pure play investments, and improve the transparency and efficiency of the restructuring firm. Decrease in information asymmetry will lead to an increase in the total value of the firm and its spun-off subsidiaries (Habib et al., 1997), while spin-offs benefit the firm since, after the spin-off, the equity values of the securities traded provide a much "cleaner" signal of managerial productivity than when the two divisions were part of a combined firm (Allen et al., 1995). It also shows that the equity of diversified firms is traded at a discount compared with single business firms.

Finally, spin-offs attain a greater gain in autonomy than sell-offs as per the nature and diversity of their new owners (known quantities), while facing a lower financial burden (restrictive covenants and substantial interest payments) than for instance Leverage Buy-Out[4] (heavy debt financing).

Nature

Historically many sectors have expanded through spin-off in their early years (e.g. automobile industry, construction industry, consulting firms, advertising agencies, rock music…), while highly technological or scientific, longer term, yet highly radical, innovations have often been based on fundamental academic and research laboratory works. Academics tend through spin-off to pursue a business application of their research, and bridge the gap between the frameworks associated with their status as "Public" entities and the higher outcomes potentially offered by a spin-off in the "Private" business world, developing further the commercial possibilities of their research. For "Private" (corporate) spin-offs, reasons for voluntary divestiture can be endogenous (e.g. better suiting external, than internal, business model) or exogenous (e.g. share- and stake-holders pressure, competitive or individuals moves…), and beneficial for all stakeholders involved. Yet it remains important to keep looking at it under the "transaction costs" magnifier, as indeed "relative efficiency of internal and external capital market transactions is a critical element in defining the boundaries of the firm" (Coase, 1937) whereas the "mechanism by which capital is allocated across and within lines of business" (MacKie-Mason, 1990) can play a significant role.

Individual (opportunistic) spin-off is occurring when an individual (or several) is pursuing a project of his own, outside of the direct scope of his company, yet in close connection (e.g. know-how, expertise, patent…), very often within the same industry and/or geographical location. Among the many reasons to it, are those linked with the "entrepreneur" meeting with a kind of conservatism from the established company, unwilling to pursue untested opportunities, leading to frustration, or the feeling that a greater financial reward can be earned by running one's own company (technological or managerial skill-based beliefs). Alternatively, proximity (cluster[5]) with peers, suppliers, logistics, customers, funding, and (relatively important as well) the "mother" company (e.g. attitude, name, reputation and goodwill) may ease the creation of a start-up, lower its risks (access to market information) and associated costs (e.g. production, location, distribution…). Entrepreneurial spin-off is substantially different (and usually smaller) from corporate spin-off and is often to be found in emerging markets and/or technology applications in their early growth stage, whereas competition is mainly based on product attributes. Technologies involved in opportunity spin-offs are mainly "readily transferable" while the industry's critical design and production techniques shall be "embodied in skilled labor rather than in physical capital" (Garvin, 1983).

For an (established) company, even though many managers may see spinning-off by one of their own, as a kind of betrayal and as an emergence of a new competitor, some more "forward-thinking" firms will see it as:

(a) a "cheap" way to enter a new market (with little redirection of management resources),
(b) a possibility to fill-in a gap left open (non-core activity) in an existing/new market segment (with somehow differing business and/or transaction costs models, as required by technological changes and "new architectures of revenue"), reinforcing the parents' competitiveness, whereas mother firms may devote their resources to their core activities/competencies and outsource to the spin-offs less important activities (Ferreira, 2006),
(c) a possibility to "retain" (affiliation) key entrepreneurial employees within the network of the firm (centrality),
(d) a way to continue to hold equity control over the subunit's operations, in a larger (yet close) business connection network ("parenthood"),

[4] *The acquisition of another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition*. Retrieved March 12, 2014 from http://www.investopedia.com/terms/l/leveragedbuyout.asp
[5] Noun: *A group of similar things or people positioned or occurring closely together*. Retrieved March 12, 2014 from http://www.oxforddictionaries.com/definition/english/cluster?q=cluster

(e) a way to improve managerial efficiency (Schipper & Smith, 1983), by reducing the size and diversity of the firm’s operation, thus reducing agency costs while providing clearer objectives, while (for larger spin-offs) allowing the firm to “compete in the external CEO labor market for talent that would have been unwilling to lead a division of a diversified company” (Seward & Walsh, 1996).

As Porter (1980) notes:

> *“this interdependence among firms has clear implications for entry strategy: While it may sometimes be appropriate to respond to competitors vigorously in the emerging phase, it is more likely that the firm's efforts are best spent in building its own strengths and developing the industry. It may even be appropriate to encourage the entry of certain competitors, perhaps through licensing or other means. Given the characteristics of the emerging phase .... the firm often benefits from having other firms aggressively selling the industry and aiding in technological development. The firm may want competitors doing this who are known quantities”.*

The contemporary perspective that firms should concentrate on their core competencies (Hamel & Prahalad, 1990) justifies that mother firms do not expand to exploit all emerging business opportunities, even when the managers identify these opportunities. Motivations for divestitures are many, but can be summarized as to “improve the parent firm's strategic, organizational and financial performance” (Hite & Owers, 1983; Miles & Rosenfeld, 1983; Montgomery et al., 1984; Schipper, 1983), as illustrated on **Figure 3**.

Figure 3: Potential Benefits from Spin-offs. Source: Citi

Further to it, Hendry et al. (2000) noted that “when incumbent firms withdraw from non-core activities, they create space for spin-offs”.

Outcomes

In complete and perfect capital markets, spin-offs will increase firm value only if they eliminate real diseconomies, the source of value in spin-offs arises from optimal allocation of debt among the component firms and the resulting improved investment policies (John, 1993). Yet, Rosenfeld (1984) found that announcements of spin-offs generated larger Cumulative Abnormal Returns[6] (CAR) for the parent than sell-offs announcements. Alexander et al. (1984) attributed this difference to a positive information effect. Their observation was that spin-offs generally occurred after a period of positive abnormal returns, while sell-offs tended to follow periods of negative abnormal returns. Wheatley et al. (2005), assessed though that “when segment information is not

[6] *A term used to describe the returns generated by a given security or portfolio over a period of time that is different from the expected rate of return*. Retrieved March 12, 2014 from http://www.investopedia.com/terms/a/abnormalreturn.asp

disclosed in prior financial statements, managers may be perceived as having concealed an under-performing segment through their lack of disclosure".

For conglomerates that have traded at a persistent discount, a structural realignment of businesses, including restructuring actions such as a spin-off, may be warranted" (Khorana et al., 2011). As seen previously, corporate spin-off will improve management efficiency by diminishing the scope of the "mother" and "clarify" the visibility (asymmetry reduction) of the spun-off. It is thus a reverse of a pure merger and differs from Asset sales, Split-ups[7], Split-offs[8], Equity Carve-Outs[9], Starbursts (multiple concurring spin-offs). In the longer run, Dittmar and Sbivdasani (2001) looked at the change in investment behavior of parent companies after they divest businesses. They find that "these firms seem to improve the internal allocation of capital and that they tend to increase their rate of investment, using the proceeds of the divestiture for funding".

On the other side, even though related subsidiaries will see more appropriate goals and evaluation measures, Woo et al. (1992), found that "unrelated subsidiaries, prior to divestiture, are more likely to have competed on a stand-alone basis and have been evaluated on their own financial contributions. Hence the administrative and strategic contexts of unrelated subsidiaries would experience less disruption than those of related subsidiaries". Indeed, potential to succeed in adopting more appropriate contracts (than previously, as a division), in autonomy, will depend on previously agreed organizational arrangements and costs of changing these. One shall though bear in mind that divestitures have often been undertaken to benefit the parent firm, rather than the subsidiary.

Tax implications, as shown by Miles and Woolridge (1999), are also a prominent criterion governing the distribution of shares to investors through spin-offs. They are almost always structured as a tax-free transaction with no cash flow implications to the parent, spin-off, or shareholders (Gertner, 2002). The distribution is deemed tax free to both the parent organization and its shareholders if the spin-off meets certain conditions (e.g. holding of less than a 20 percent stake in the child firm), that is why it is quite unusual (and costly) for a parent firm to retain higher than this percentage, post spin-off. Contracts can though be structured such that the spun-off asset and the restructuring firm can maintain mutually beneficial post-restructuring relationships. Such associations may be particularly appealing for assets residing in primary and related businesses, given their potential to contribute to the restructuring firm's value chain (Ito, 1995). Moreover, the restructuring firm and the spun-off assets can continue to maintain relationships, but do so in a more efficient manner than before (Ito, 1995).

But parent oversight may limit the autonomy of the ostensibly independent child firm and hamper its ability to adapt to its new status. It was found that continued significant ownership by the parent firm is negatively related to the child's long-term stock market performance (Semadeni & Cannella, 2011). With the spin-offs comes the relinquishing of residual rights to the child, allowing control of the child to pass directly to shareholders. If, however, the parent retains an ownership block in the child firm, the relinquishing of residual rights becomes much more ambiguous. One possible rationale to do so, is that the parent believes the post spin-off performance of the child will be significantly improved, leading to an appreciation in the value of their block shares and potentially allowing the parent to sell the shares at a premium (Barclay & Holderness, 1989; 1991; 1992). Another rationale, put forward by Kang and Sorensen (1999), is that block shareholders wish to retain influence over the firm, with the aim of influencing how the child operates post spin-off. This approach may also be taken to ensure that the child firm does not outshine or overshadow the parent, or even become a competitor of the parent firm.

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[7] *A corporate action in which a single company splits into two or more separately run companies*. Retrieved March 12, 2014 from http://www.investopedia.com/terms/s/split-up.asp

[8] *A means of reorganizing an existing corporate structure in which the stock of a business division, subsidiary or newly affiliated company is transferred to the stockholders of the parent company in exchange for stock in the latter*. Retrieved March 12, 2014 from http://www.investopedia.com/terms/s/split-off.asp

[9] *Sometimes known as a partial spinoff, a carve-out occurs when a parent company sells a minority (usually 20% or less) stake in a subsidiary for an Initial Public Offerings or rights offering*. Retrieved March 12, 2014 from http://www.investopedia.com/terms/c/carveout.asp.

Profit and Loss Centers

In a multi-faced business environment (e.g. multi- market, industries, divisions…), management from the parent company has to optimize the shareholders' value, through the continuous adjustment of the company's portfolio of activities, agencies, transaction costs and resources allocations. Change of structuration of the group may become mandatory, either through acquisition or divestment. It is thus of the utmost importance that each Profit Center[10], or more commonly Profit and Loss (P&L) Center (here called a subsidiary) is closely monitored (within and across the group, as with parents and other siblings), characterized (e.g. intra-firms' role, inter-dependencies and group relatedness), and managed (from central and local perspectives) taking into consideration as well the weight and agenda of the main shareholders, and their consideration for restructuring.

As exiting a market is typically the last resort for a firm, it is necessary to pay more attention to how firms attempt to change their strategies and keep their subsidiaries viable. We will here focus on possible divestiture of non-profitable (for the parent) wholly owned P&L center (as a difference with partially owned P&L such as Joint Venture, alliance, minority holding), when faced with restructuring challenges. Accordingly, once the divestment decision had been taken, the choice will have to be made between a sale and liquidation. Corporate diversification theory holding that divestiture can be interpreted as a reversal of past diversification (Benito & Welch, 1997; Haynes et al., 2003; Madura &Whyte, 1990; Madura & Murdock, 2012).

As for Public Assets Apportionment, we will look into rationale, nature and outcomes for P&L Centers realignments, and how they can differ and must be analyzed under several perspectives.

Rationale

In a perfect business world, with well-functioning actors, all subsidiaries (children) will generate revenue that is then surrendered to the parent for redistribution internally (Scharfstein & Stein, 2000). Sources of further financing will then come from the parent company to the child, as per agreed request procedures and processes (transaction costs and agency theory), based on allocations, synergies and an internal financial market. Attached to it, some kind of autonomy will be granted (e.g. marketing activities), including organizational structure (Chandler, 1962; Williamson & Bhargava, 1972), planning and control systems (Ouchi & Maguire, 1975; Child, 1984), selection of managers (Gupta & Govandarajan, 1984; Hambrick & Mason, 1984) and a competition between business lines for those additional resources will expectedly occur, thereby improving the efficiency of each, and the performance of the overall firm (Bergh et al., 2008). Within the confined environment of the group, each P&L Center will have access to a common working frame aimed at optimizing support and cross knowledge and technology sharing, while revoking the need for any entity to directly liaise with external constituencies such as shareholders or securities analysts. Acquisitions will go through an acquisition integration approach, as the one proposed by Haspeslagh and Jemison (1991), with a clear rationale for the preferred outcome among absorption, preservation, symbiosis or holding.

When facing the need for restructuring, "divestment decision will be taken on the "relatedness" of the subsidiary with other members of the group" (Praet, 2011) but also on the level of synergies between the subsidiary, the parent and the other companies in the group (focus motive). Therefore, subsidiary divestment decisions are not only affected by subsidiary-level factors but by network-level factors. The lower the synergies, the higher the "chance" of restructuration, the highest the degree of "difference", the highest the likelihood for divestiture, either by voluntary sales or liquidation[11], as illustrated on **Figure 4**. Under the managerial capabilities motive, or the efficiency motive (Schlingemann et al., 2002), management will try to use its skills and abilities optimally and

[10] *A branch or division of a company that is accounted for on a standalone basis for the purposes of profit calculation*. Retrieved March 12, 2014 from http://www.investopedia.com/terms/p/profitcentre.asp
[11] *The shareholder vote allows the company to liquidate its assets to free up funds to pay debts*. Retrieved March 12, 2014 from http://www.investopedia.com/terms/v/voluntary-liquidation.asp

will restructure those subsidiaries that are not, or no longer, compatible. Lang et al. (1995) arguing though that management will “pursue its own objectives and will sell assets if that provides them with the cheapest funds”, searching for those assets that best fit their abilities and can be run efficiently.

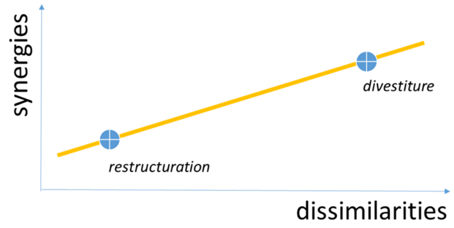

Figure 4: Subsidiary restructuration-divestiture rationale

Needs for divestiture will have their source into financial constraints and declining performance (John et al., 1992; Kang & Shivdasani, 1997), where firms will respond to financial distress by using predominantly contraction policies, which refers primarily to asset sales, divestitures, spin-offs (involving the sale of plants, divisions or subsidiaries), employment reduction and emphasis on core business. The dominant shareholder/s will have the power and the incentive to monitor management, and consequently management could be forced to divest assets when it is in the interest of the shareholders. Prior to it, management will intervene in order to improve the controlling firm’s focus or when subsidiary performance imposes a burden on the group’s financial situation (Praet, 2011), adding that “performing worse than the industry, which could be indicative of low managerial capability”, has no significant impact on divestiture likelihood.

Nature

In a multi-faced business environment (e.g. multi- markets, industries, divisions…), risk is diversified and lowered (spread) by multiplying the revenue streams, by economizing financial synergies, and by assigning professional managers to underperforming firms (Bergh, 1997; Trautwein, 1990). Financial control systems are run utilizing internal capital markets to lower information asymmetries and reduce opportunistic behavior (Williamson, 1985), while subsidiaries are established as individual profit centers, with decentralized decision making, and evaluated for performance using objective measures (Hill & Hoskisson, 1987; Hill et al., 1992; Hitt et al., 1996). Praet (2011) assessing further that “a potential benefit of the presence of a block-holder (owning more than 75 percent of shares) is the increased monitoring ability”. Holding a substantial stake creates an economic incentive to monitor the management intensively and reduce agency costs (Demsetz & Lehn, 1985).

Additionally, an added and influential factor to that, can be the intra-firm spillovers[12] that arise when the actions and choices of one unit affect the optimal behavior and performance of other units. It can be positive (when subsidiaries’ incentives are aligned with each other), and impose few organizational demands (subsidiaries benefits from coordination), or negative (when subsidiaries’ interests are not aligned) and require more active intervention by headquarters to facilitate coordination because the optimal behavior of subsidiaries contradicts each other (Galunic & Eisenhardt, 1996). When this is the case, neither the full centralization of decisions to headquarters, nor giving full autonomy to the subsidiary would be effective in managing negative spillovers because it is necessary to coordinate activities across subsidiaries and, simultaneously, provide subsidiaries with the requisite autonomy and flexibility to adapt to their local environments (Nohria & Ghoshal, 1994; Baum & Greve, 2001).

Addressing that gap, which is “whether, and how, multi-industry firms reconcile the need to delegate decision-making to subsidiaries with the need to coordinate multimarket competitive strategies in the design of relationships between headquarters and subsidiaries”, Sengul and Gimeno (2013) coined the notion of

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[12] Noun: *An instance of overflowing or spreading into another area*. Retrieved March 12, 2014 from http://www.oxforddictionaries.com/definition/english/spillover?q=spillover

“constrained delegation”. They argued that multi-industry firms manage multimarket competition by delegating most business-level decisions to subsidiaries, while simultaneously limiting their action space for resource commitments, through constraints on the scope of decision rights, and constraints on available resources.

Firms with high diversification are expected to restructure by sell-offs rather than spin-offs, as little to no information asymmetry exists about the earnings or costs of each profit center or division, has pointed by Chandler (1962), Hoskisson (1987), Hoskisson et al. (1993). Sell-offs allow value to be created by (a) ridding the firm of assets that are not meeting performance objectives, and (b) generating proceeds from the sale that can be injected into the firm’s internal capital market (Bergh et al., 2008). Further to that, the sell-off process will allow assets to be restructured via a bidding process that has the potential to maximize the sale value.

Outcomes

Firms with foreign operations, that is Multi-National Companies (MNCs), can offer their affiliates (subsidiaries) better flexibility than purely mono-national ones, as they will have additional options for cross countries intra-firm trade, productions, logistics and support, enabling each entities (and thus the group) to reduce transaction costs and enhance its efficiency (Feinberg & Gupta 2009). Parent MNCs may regard troubled subsidiaries as targets for global restructuring, which can involve terminating the subsidiary’s operations (Benito, 2005; Fisch & Zschoche, 2011; Hennart et al., 1998; Mata & Portugal, 2000). Yet, as stated by Song (2014), “even subsidiaries troubled by high production costs should be kept alive instead of being divested, with the help of their operational links to other subsidiaries”. He arguments that “in cases in which a foreign subsidiary is operationally linked to other affiliates through the same MNC network, the investments that it engages in may become irreversible, and thus may not be easy to abandon even in unfavorable economic situations in host countries. The irreversibility of investment associated with intra-firm trades among affiliates may heighten hysteresis[13], which may deter changes in established investments during a certain period of time”.

More successful multimarket firms develop better systems and processes to increase the breadth, frequency, and quality of the information shared (Jayachandran et al., 1999), yet incentive systems that encourage subsidiary managers to match the firm’s objectives can also support the effective execution of multimarket strategies, because incentive regimes that reward attaining firm-level objectives can be a partial substitute for centralized decision making (Aghion & Tirole, 1997; Rivkin & Siggelkow, 2003; Rantakari, 2008). To be sure, mutual forbearance can be achieved when subsidiaries are willing to and capable of coordinating their strategies voluntarily (Neubauer, 2001). Yet this would be the case only when there are mutual benefits (positive spillovers) from coordinating activities (Alonso et al., 2008). Consequently, sharing information is not sufficient to coordinate competition.

As a result, subsidiaries performing badly or activities unrelated to the rest of the group will be likely candidates for a divestiture. If a firm is confronted with financial constraints because of an industry-wide shock, the other firms in the industry will be short of cash reserves too. Since these competitors are the most likely candidates for buying the assets, asset liquidity will be low. The assets may not be sold under these conditions as the price received would be too low as compared to the price desired. If industry demand is low, however, the probability of plant closures increases since it will be optimal to liquidate less productive plants. If the sector is characterized by high growth, a lot of competitors and thus a lot of potential buyers and/or a lot of transactions, a sale is most likely. In the reverse case, liquidating the subsidiary will be the optimal decision.

John and Ofek (1995) report that the industry-adjusted cash-flow performance of the remaining assets improves significantly after a focus-increasing divestiture. Wernerfelt and Montgomery (1988) and Comment and Jarrell (1995) also find that increases in focus result in performance improvements. Jongbloed (1994) argues that firms

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[13] *Refers to systems, organisms and fields that have memory …. the consequences of an input are experienced with a certain lag time, or delay.* Retrieved March 12, 2014 from http://www.investopedia.com/terms/h/hysteresis.asp

that combine units with different investment opportunity sets are more likely to divest units by means of a spin-off or an equity carve-out. He also predicts that the units that will be divested are either the ones with the fewest or the highest growth opportunities. This way the intra-firm variation of the investment opportunities will be reduced most strongly.

Strategic Business Units

As stated by Martin and Eisenhardt (2010), a Business Unit (BU) is defined as (a) a "distinct and separable organizational entity with authority over key BU-level strategic decisions (including resource allocations), (b) selling distinct products that customers may purchase (independently of those offered by other BUs in the same firm) and (c) an entity managed by a General Manager (GM) with an executive team. Return on Investment (ROI) and Return on Sales (ROS), can measure its profitability".

From a classical viewpoint, the firm is envisioned as a single-business entity whose performance is fundamentally a function of the structural factors of the industry (Bain, 1968) in which the firm competes. This viewpoint implies that the most pertinent variance occurs across industries and that industry effects are of primary importance to understanding performance. The "managerial" (Schmalensee, 1985) or "business strategy" (Rumelt, 1991) perspective, in contrast, emphasizes diversity in firms' capabilities and strategic approaches as the major determinant of the dispersion in profitability across firms. "It implies that variance in performance across firms is not solely the result of industry structural factors, but rather that business unit (Rumelt, 1991; McGahan & Porter, 1997) and corporate characteristics (Adner & Helfat, 2003; Bowman & Helfat, 2001; Brush & Bromiley, 1997) are the most relevant to explaining firm performance", as underlined by Misangyi et al. (2006).

As for any acquisition/divestiture, the acquisition of an external BU is the result of the divestiture ("carve-out") by another firm. Reasons can be many, but as stated by Leimeister et al. (2012), "reasons include changes in organizational focus or strategy, weak economic performance or a need for capital. Antitrust regulations or other contractual obligations are also reasons for organizations to sell business units". In high technology sectors, large firms often make multiple acquisitions or alliances of small targets, using a real options strategy to cover different potential trajectories (Bowman & Hurry, 1993; Puranam et al., 2006). These firms may later divest some units, as they did not plan on incorporating them all permanently (Karim, 2009; Villalonga & McGahan, 2005). Thus, these smaller units may not benefit from collocation or related operating experience; these units might not be deemed worthy of parental attention (Bouquet & Birkinshaw, 2008).

As for previously seen Apportionment and Realignment, we will look into rationale, nature and outcomes for business units reshaping, and how they can differ and must be analyzed under several perspectives.

Rationale

Theory suggests that business units are nested, or "embedded" (Granovetter, 1985), within both corporations and industries, where corporate hierarchies replace the market as a coordination mechanism across businesses when market governance is inefficient at attenuating opportunism (Williamson, 1975). As firm performance varies across industries, corporations, and businesses, theory suggests as well that the levels of variance are related in a nested manner such that business performance is cross-nested within corporations as well as industries (Misangyi et al., 2006).

Market-share has long been used as a measure for competitive performance at the business unit level, for which profitability measures are often unavailable (Buzzel et al., 1975; Stigler, 1958). Demsetz (1974) and Rumelt and Wensley (1981) argued that both market share and profitability might be driven by a common underlying factor, such as the efficiency of a firm. Firm-level resources that generate competitive advantage, such as technology or brand equity, will result in high levels of both market share and profitability (Chang & Singh, 2000), market share is then seen as a reasonable measure for competitive performance.

Now small BUs will rely more heavily on the parent involvement, whether through access to internal capital, skills transfer (e.g. management) and managerial focus, implying higher transaction costs than larger (more or less) self-sufficient business units, where the process of transfer of skills had already occurred. It is though important to specify that BUs can be either grown internally (internally developed) or acquired (externally developed) and that consequently, some firms may be more successful than other in growing small business, while some other firms may have a larger experience of integrating, or recombining, external business units into their organizations.

In larger firms, (strategic) business units are generally of larger sizes and in higher numbers too. They are relatively autonomous from either each other, or from the parent firm. Roquebert et al. (1996) found in the same connection, that corporate effects increase as firms have a smaller number of SBUs. Many business units within medium-sized companies may depend substantially on corporate-level resources. Frequent acquisitions and sell-offs will thus require that each business unit will have to be "self-contained and readily salable" (Chang & Singh, 2000), with low corporate-level effects for well-established SBUs.

BU modularity (recombination) will enable executives in multi-business organizations to adapt to changing markets by adding, removing, and recombining firm resources (Galunic & Rodan, 1998; Helfat & Eisenhardt, 2004). Adaptation will occur as single BU evolve, or morph (Rindova & Kotha, 2001), and as corporate executives "re-architect" (patching) their BU portfolios by (a) creating new BUs (Burgelman, 1983; Gilbert, 2005), (b) shifting product market charters from one BU to another (Galunic & Eisenhardt, 1996; 2001), and (c) eliminating, splitting, and combining existing BUs (Brown & Eisenhardt, 1998; Eisenhardt & Brown, 1999; Karim, 2006). This adaptation is both a deliberate process (led by corporate executives) and an emergent process by which BU members serendipitously change through cross-BU collaborations.

Nature

The structural features of an industry (e.g. entry barriers, concentration, differentiation, and demand growth), can affect the competitive position and profitability of all participating business units in the industry. Chang and Singh (2000) have found that "business units are the main reservoir of resources that generate competitive advantage, which in turn leads to higher market shares and higher levels of profitability. Corporate ownership can exert far greater influence on value creation in their smaller business units (especially when growing), than they can in their established business units".

However, Govindarajan and Fisher (1990), determined that output and behavior control are to be seen as alternative control strategies, in the light of organization theory (Ouchi, 1979) and agency theory (Baiman, 1982). The three important relevant relationships are (a) that the strategy chosen by an SBU influences the type of control chosen (Govindarajan, 1988), to be tailored to the strategy of individual SBUs, (b) that the utility of resource sharing among SBUs depends on their strategic contexts (Porter, 1985), and (c) that the degree of that resource sharing affects the choice of controls (Pitts, 1980; Vancil, 1980).

Further to it, Kownatzki et al. (2013) showed that "on the one hand, corporate headquarters might put additional burdens on SBUs, slowing down their decision processes, which consumes time and energy, while on the other hand, the corporate level may accelerate SBUs' decision making by giving advice and/or direction and by initiating and sustaining momentum for difficult strategic decisions. In addition to that, Porter (1985) argued that resource sharing can enhance differentiation by contributing to the uniqueness of an activity and by lowering the cost, while on the other hand, resource sharing could benefit a SBU practicing differentiation by contributing to the uniqueness of an activity and by lowering the costs of differentiation, especially in areas in which flexibility is not critical.

Porter's (1980) framework (low-cost and differentiation strategy), showed that for a low-cost SBU, an organization will employ output control (focused on the measurement of the outcomes of behavior) to enhance effectiveness, and for a differentiation SBU, it will employ behavior control (based on direct, personal surveillance of behavior). Behavior control had then been shown as being most effective for firms with relatively low degrees of diversification (Goold & Campbell, 1987), in which SBU success requires extensive coordination, cooperation, and resource sharing (Hill et al., 1992; Hill & Hoskisson, 1987; Lorsch & Allen, 1973; Vancil, 1978).

Outcomes

With regard to the assessment of the relative importance of industry, corporate, and business unit effects, Misangyi et al. (2006) suggest that "the relative importance of business unit effects far outweighs those of corporate or industry effects, and that these latter effects are of similar relative magnitude. As such, focusing attention toward the business unit and treating both the corporate parent and industry in which a business unit is embedded as environments which affect business unit profitability, may be the best approach to investigation of performance".

More intrinsically, the "origin" (i.e. internal versus external) of the business unit plays an important part into the role it serves within the organization. Indeed, acquisitions come to the firm with an existing set of products and business systems, and are perceived as being a resource to the acquirer's units, allowing for experimentation (reconfiguration), through addition, deletion of units from the firm, and recombination[14] of units within the firm, pursuing new opportunities and/or greater efficiency. Original units will very often keep their identity and represent the foundation of the firm (building blocks). Karim (2006) has found that usually, the external units are more often, sooner and several times more, reconfigured than the "native" ones, while more frequently "merged" into the pre-existing business unit. **Figure 5** illustrates the "reconfiguration-recombination process" occurring at business units level.

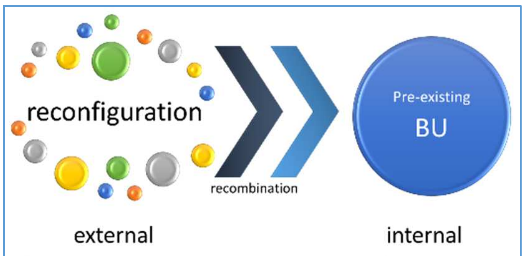

Figure 5: Business Units reconfiguration-recombination process

It has also been shown that recombination of units, is precursor to divestment (stepped process), while at the same time it lengthens longevity of units' resources and activities within the firm, which is dynamically attempting reconfigurations while realigning its resource. Refinements to internally developed units tend to involve incremental changes (cumulatively) to existing products and systems, rather than extensive reconfiguration (Nagarajan & Mitchell, 1998). Firms will often need to undertake extensive reconfiguration of acquired units in order to divest resources that are not needed and to recombine units in ways that improve business activities.

On the other side, dissolving an internally developed unit is more radical than adding elements of other units to an internally developed unit, whereas the reverse will lead to "exaggerated integration problems" (lack of familiarity with the targets' routines and resources). Recombining acquisitions together may serve to create more value or opportunities than keeping the acquisitions separate, and be about building critical mass, especially if the resources in the unit are different.

[14] Noun: *The natural formation in offspring of genetic combinations not present in parents, by the processes of crossing over or independent assortment.* Retrieved March 12, 2014 from http://www.thefreedictionary.com/recombination

Lastly, several reasons as of why firms utilize multi-business organization can be (a) better decision making (Chandler, 1962; Galbraith, 1973), (b) superior control of opportunism (Berle & Means, 1932; Williamson, 1975), and (c) enhanced value creation through cross-business-unit collaboration (Helfat & Eisenhardt, 2004). Collaboration can be a significant source of economic value for business units and their parent corporations (Bowman & Helfat, 2001), even though the economic value of multiple businesses is often not realized. From the perspective of social network theory, BU managers are more likely to find opportunities for collaboration with other BU managers with whom they already have personal ties, and these collaborations are likely to be easier to execute given familiarity and trust (Hansen, 1999; Tsai, 2000; 2001). Thus, rich social networks increase the formation and performance of cross-BU collaborations.

Intellectual Property Rights

Intellectual Property Rights[15] (IPRs), out-Licensing[16] and in-licensing agreements, Contract Manufacturing (e.g. private labels[17], Original Equipment Manufacturer[18]), Franchises[19]… are some of the tools a firm can use to leverage its brand and unique capabilities (e.g. IP, know-how), especially at time of increasingly challenging business environment and/or requirements for quicker way to expand and extend. Those action levers have a lot in common (notably limited transaction costs) and (a) can help generate revenues ("proven return on investment"), (b) leverage the brand (treated as a strategic asset) with (c) mitigated risks (usually backed by legally structured agreements), when business and brand strategy are aligned.

Firms can leverage brands for growth by launching new products or entering new geographic markets (Srivastava et al., 1999), under their own patronages, or contract the brand to an external entity, through out-licensing. Brand owner (the licensor) enters into an agreement with another firm (the licensee) to manufacture, promote, distribute, or sell products using the brand name (Battersby & Simon, 2010), against a previously agreed payment scheme (royalty). The brand can be strengthened (e.g. further promotion and placements), expanded (demographics), more lucrative (new revenue streams), extended (e.g. new market segments/industries), while providing mechanisms for further collaboration (e.g. alliance, acquisition, partnerships…). On the other side, in-licensing provides a low cost, effective means of achieving effective market segmentation with minimal cannibalization of the core brand.

However as a limitation to some of the previously mentioned leverages, and as Sherman (2004) observed, "The licensor's interest is normally limited to supervising the proper use of the license and collecting royalties. The franchisor, however, exerts significant active control over the franchisee's operations". Franchise entails the sharing of a business model (proprietary knowledge), a process (know-how) and engage into a dual trademark promotion, leading to higher agency and transactions costs than in licensing.

[15] *Intellectual property rights refers to the general term for the assignment of property rights through patents, copyrights and trademarks. These property rights allow the holder to exercise a monopoly on the use of the item for a specified period.* Retrieved March 12, 2014 from https://stats.oecd.org/glossary/detail.asp?ID=3236

[16] *This term refers to a written agreement entered into by the contractual owner of a property or activity giving permission to another to use that property or engage in an activity in relation to that property.* Retrieved March 12, 2014 from http://www.investopedia.com/terms/l/licensing-agreement.asp

[17] Noun: *A retailer's name, as used on a product sold by the retailer but manufactured by another company.* Retrieved March 12, 2014 from http://www.oxforddictionaries.com/definition/english/private-label?q=private+label

[18] *A company that buys a product and incorporates or re-brands it into a new product under its own name.* Retrieved March 12, 2014 from http://www.investopedia.com/terms/o/oem.asp

[19] *A type of license that a party (franchisee) acquires to allow them to have access to a business's (the franchisor) proprietary knowledge, processes and trademarks in order to allow the party to sell a product or provide a service under the business's name.* Retrieved March 12, 2014 from http://www.investopedia.com/terms/f/franchise.asp

We will thus focus on Intellectual Property Rights in the following, and look into rationale, nature and outcomes for brand management through the prism of licensing, and how modalities may differ and must be analyzed under several perspectives.

Rationale

As summarized by O'Neill (2007), and illustrated on **Figure 6**, "the primary objectives of licensing programs are to (a) promote the brand (*equity and awareness*), (b) to protect the brand (*strengthen the core business, minimize resource requirements*), and (c) to produce revenue as a result of the brand growth (*new growth platforms*). More specific objectives such as reaching new demographics, expanding channels of distribution, revitalizing a tired brand, or growing beyond organizational core competence and resources, are other examples of viable aspirations". Brand extensions leverage the investments a company makes in its existing brand names and hedge against the risk of new product failures (hampering future performance of the business), while extending the brand without the expense of a direct entry (Colucci el al., 2008). These "extendibility" advantages significantly contribute to a brand's financial value because they raise the estimate of its future revenues (Keller, 2003).

Figure 6: Brand opportunities in licensing
Source: Licensing Journal

When developing a strategic licensing plan, brand-related information should be surveyed, among which the brand's essence, attributes, and brand elasticity ("permission" to extend into new areas), its competition, and the marketplace overall. The best categories for initial licensing consideration are those considered "close to core", those which are extremely near to the brands basic competency and essence. A sound strategic licensing plan shall be complete with identified categories for extension, phasing, pricing, positioning, target demographic detail, and distribution, and will serve as an effective road map for the licensing journey. For effective implementation, an assessment of operational readiness within the licensor's organization and a corporate commitment to licensing is just as important (O'Neill, 2007).

Additionally, Jayachandran et al. (2013) indicate that "intellectual property protection laws stipulate that mere registration of the brand in a market is not enough to maintain brand ownership after a grace period of three to five years (World Intellectual Property Organization [WIPO] 2013). Therefore, it is often necessary for firms to use a brand to retain rights to the name in a foreign country market, and licensing can accomplish this at a lower cost than direct entry. Further to that, as mentioned by Andal-Ancion et al. (2010), "brand owners may wish to protect their intellectual property from infringement in categories not covered by their core product or services".

Used appropriately, licensing can help enhance the brand's equity in new markets. As more firms are "born global" (attractive to worldwide consumers), the importance of retaining rights to the brand (with great potential) through licensing, makes it an appealing and affordable instrument. A new firm might opt to license its brand in strategic overseas markets to simultaneously build, and protect its brand.

Nature

An existing brand name from another category will fit a new product category if there appears to be a match at the level of concrete attributes or based on abstract imagery or personality attributes (Batra et al., 1993; John & Loken, 1993; Park et al., 1991). Abstract associations are easier to extend than concrete associations, and a brand name that is too strongly identified with only its parent category (relative to an abstract quality that spans multiple categories) can be more difficult to extend outside the category (Aaker & Keller, 1990; Farquhar et al., 1992). Abstract associations are inherently more inclusive and superordinate (or broader, and thus fit into more product/service categories) than concrete associations.

The business model of licensing allows for mitigating the risk for the firm of doing it on its own. The financial risk are lowered (e.g. absence of shipping, warehousing, and distributing), and moved away to the licensee (new stakeholder in the brand), in exchange for taking a reduced margin (royalty). This allows focus on the firm's "core" business, while giving the licensor further possibilities of exponentially expanding its program (limited level of capital expenditure), which will serve best both the emerging and/or restructuring firms.

Jayachandran et al. (2013) add, that "in situations in which a firm does not want to enter a country directly, it might be helpful for it to license the brand to retain brand rights. Perfect alignment of interests between the licensor and the licensee may be rare in brand licensing. In many cases, revenues should be secondary to ensuring that the brand is not diluted through unsuitable licensing arrangements (Bass, 2004). The viability of brand licensing depends as well on reducing the possibility of such opportunistic behavior by either party to the agreement, which will vary across countries (Lafontaine & Oxley, 2001; Marron & Steel, 2000). For instances, market size increases the risk of opportunistic behavior (leading to licensee paying higher royalty rates to incentivize the licensor), so will contract duration and exclusivity (lower royalty rates), too. Brand licensing royalty rates might indeed differ across country markets.

Outcomes

When IP rights are offering sufficient protection in a market, the licensee is incentivized through low royalty rates. When IP rights are not well protected, licensors are compelled to monitor more extensively for brand violation and factor the cost of monitoring into higher royalty rates. Brand violation devalues the brand, compromises revenues, and reduces a marketer's ability to fully leverage the equity of the brand (Day, 2011). Therefore, the protection of brand property must be given importance in the discussion of marketing assets. In an era of global brand management, when brand assets are often the most significant part of a firm's value (Day, 2011), it is important to evaluate strategies to protect such assets.

Finally, when (agency theory) parties to the contract engage in moral hazard (i.e. opportunistic behavior), suboptimal outcomes may result, the royalty rate acting as a popular form of compensation, especially rates in international brand licensing. However, independent from the outcome, almost no risk inherent to the brand or core business is linked to licensing. If unsuccessful, the licensed products can be phased out without the significant write-offs associated with internally developed product failures and (because targeted demographics are outside of core business demographics) with little or no impact to the core business.

Conclusion

I have successively looked at Public Assets Apportionments, Profit and Loss Centers, Strategic Business Units and Intellectual Property Rights, to assess, for each, their rationale, nature and outcomes, with the aim of mapping their respective relatedness and autonomy on a "4-step focus wheel", positioned on an adapted "Acquisition Integration Approaches Matrix" (Haspeslagh & Jemison, 1991), as illustrated below on **Figure 7**.

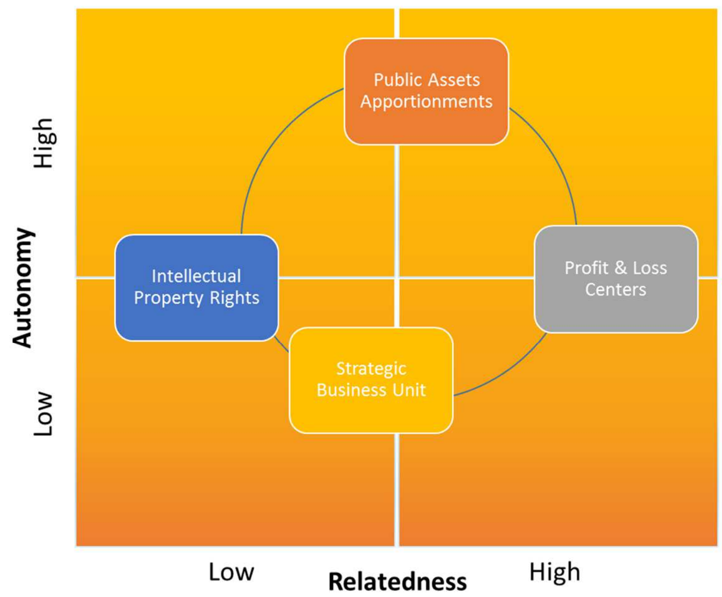

Figure 7: 4-step Focus wheel
Adapted from Acquisition Integration Approaches Haspeslagh & Jemison (1991)

When opting to voluntarily divest assets, a company will choose between spin-offs and sell-offs, on the basis of the relatedness of the firm's business lines or of its incentives for cash generation. Corporate spin-offs will though increase value of the overall firm (parent & child), increase the efficiency of capital allocation, thus lowering transaction costs. A "cleaner" (agency) signal of managerial and entities productivities will emerge, while the opportunistic spinning-off, by employees, will enlarge the firm's network's centricity, provided a relatively high degree of autonomy is granted to the spun-offs, not to interfere with their perspectives of "outer" growths and profit generation.

Operating on the base of already "tweaked" agency and transaction cost models, P&L Centers will on their own remain quite dependent on the "parent" to support their activities, where they will have access to capital through an "imperfect" internal market. Operational autonomy may be granted, for better match with their markets, with cross (international) subsidiaries synergies, allowing for ongoing adjustments across the organization. At time of divestiture, for financial constraints and declining performance, decision will though be taken on the "relatedness" of the subsidiary with other members of the group, correlated by a network-level factor. Divestiture will predominantly use contraction policies.

Acquisition and divestiture of business units will as such be a standard technique of strategic management, where mostly "non-natives" units will go through reconfiguration and recombination processes, to be blended with pre-existing ones. Not all "acquired" units are meant to be kept and/or combined, their owners keeping the smaller ones readily "salable", while the largest units may acquire enough autonomy and synergies within the company and other units. However theory suggests that business units are nested, or "embedded" within both corporations and industries, and as such rely predominantly on their corporate hierarchies, to act as the coordination mechanism across the firm's businesses.

Finally, brand licensing will grant the “Intellectual Property Rights” owner, access to new markets and brand equity increase, at a relatively mitigated risk and transaction cost. Royalty and IP protection levels will go hand in hand to balance opportunism from both sides (licensor and licensee), whereas in case of unsuccessful licensing no significant write-offs will have to be borne by the firm. Furthermore, while leveraging (and accelerating) the firm’s expansion program, it will still allow it to keep a focus on its “core business”. As such, limited relatedness of business and a high autonomy will be characteristics.

At time of increasingly challenging business environment and/or requirements, “inward strategic growth” should be more thoroughly looked at, as indeed “Corporate growth diamonds”, from within, may be spotted and nurtured.

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