Chapter 1

Value-adding corporate centres

Introduction

Multi-business groups are under attack. In the major developed markets of the world not only is the truly diversified conglomerate seen as a dinosaur from a bygone corporate era, but also the corporate centres of very many other large corporations are seen as endangered species, facing ever increasing demands and challenges to justify their continued existence.

Corporate centres are seen as adding costs, not creating value. If this is true, the next logical argument is that these corporate centres actually destroy part of the value created by the underlying businesses within the group. Hence, if the group was to be broken apart, this destruction of value could be stopped by closing the corporate centre. Shareholders in the resulting separately constituted companies would be financially better off.

This helps to explain the recent trends towards refocusing initiatives, demergers, partial public listings, i.e. flotations, management buy-outs, private equity funded take-overs of parts of large groups, etc. At the opposite end of the spectrum, mergers and acquisition activity has been at an all-time record level within many global industries. Interestingly the impact on the corporate centres involved is remarkably similar: severe cost-cutting exercises and dramatic head-count reductions.

This shareholder value focused argument has been actively reinforced by the work of many of the major strategic consultancies and much of the academic research into the role and effectiveness of corporate centres. Consequently this theme is also frequently reflected in the media, which normally seems much more concerned with a small reduction in employment at any operating site within such a group than with the complete closure of a major corporate head office.