In the 1990s, conventional wisdom held that corporate leaders should leave divisions alone, so long as they hit their numbers. That's changing. In uncertain markets, CEOs need to provide strategic guidance more quickly and more often than they used to.

LEAD FROM THE CENTER
How to Manage Divisions Dynamically

by Michael E. Raynor and Joseph L. Bower

No one needs convincing that in today's turbulent, competitive business environments corporations must be flexible and responsive. A host of forces are arrayed against even the most prescient strategist: technology, regulation, and globalization, to name only three. The question companies now face is not whether they need to be nimble and quick, but how.

Most of the advice on this score is remarkably consistent. Especially in large, complex, diversified companies, the prescription is "more decentralization"—at the limit, an almost complete devolution of decision-making authority to the operating divisions and those people closest to emerging technologies, competitors, and customers. This point of view has been espoused so often and with such conviction that one might even refer to it as the conventional wisdom.
Like most conventional wisdom, however, this approach does not always serve us well. We have found that responding effectively in uncertain markets often requires more—not less—direction from the center. Our research into contemporary diversified companies suggests that, in industries undergoing rapid and difficult-to-predict change, corporate headquarters must play an active role in defining the scope of division-level strategy. Furthermore, to compete effectively as a corporation, it often falls to the CEO and a select staff to drive the timing and nature of cooperative efforts between divisions.

The role of the corporate office in creating a strategically flexible organization has cascading effects on how executives manage other aspects of the company: whether divisions are clustered into groups, for example, and how compensation is structured. The result is a set of managerial challenges fundamentally different from those of diversified companies in more stable and slowly changing environments. Through an examination of four corporations—Sprint, WPP, Teradyne, and Viacom—we will explore the defining managerial characteristics of what it means to manage divisions dynamically.

The Sprint Story

The Sprint case illustrates the need for corporate-level strategic flexibility—and is an example of its successful implementation. Now a $20 billion telecommunications corporation, Sprint began life in 1901 as a rural Kansas telephone company. For the next 75 years, the company grew in traditional ways, acquiring other local telephone companies and vertically integrating into the manufacture and distribution of telecommunications equipment. Between 1976 and the mid-1990s, Sprint developed into a major diversified telecom player: it built a nationwide fiber-optic network, created a substantial long-distance business, entered the digital wireless business, took a minority stake in an Internet service provider, invested in broadband, and entered the Latin American, Western European, and Asian markets.

These businesses are at least nominally related, in that they all compete in the telecommunications industry. However, for much of its history, Sprint has had very few opportunities to capture meaningful synergies between its various businesses. For example, when Sprint moved into the long-distance market, it was unable to draw on expertise or assets from the local division, largely for regulatory reasons. Even ignoring regulation, the two businesses had little in common: they were based on different technologies, served different markets, and operated in different competitive contexts. That was the case for many of Sprint’s new business initiatives, which functioned independently of one another despite their surface-level similarities.

As technological, regulatory, and market forces began to change, Sprint looked for ways to exploit synergies between its once autonomous divisions. Consider the evolving relationship between the local telephone division and the consumer long-distance division. In the wake of the Telecommunications Act of 1996, which, among other things, began to break down the barriers between the local and long-distance businesses, Sprint launched One Sprint, an initiative designed to expand the local phone business by selling the fullest possible range of Sprint services. Practically speaking, this meant finding ways to cross-sell long-distance service to local customers. Beginning in 1998, the local telephone and the consumer long-distance divisions cooperated to create bundled products; for a flat fee, Sprint’s local customers could purchase local loop access, specialized dialing features, and blocks of long-distance time in configurations previously unavailable from the long-distance division.

The results speak for themselves. According to Sprint’s executives, by the end of 1999 Sprint had achieved 27% consumer long-distance market share in areas in which Sprint was the local provider, compared with 7% market share in other areas. In fact, as the program gathered steam, during one 30-day period Sprint increased its market share by as much as 2%. Mike Fuller, CEO of the local business, says his group became the long-distance division’s best distribution channel.

In this case, the benefits of integration were clear, and corporate headquarters did not have to twist arms to get the divisions to cooperate. It simply set targets for the local division based on developing new sources of revenue. The long-distance division, meanwhile, operated on the straightforward belief that any channel that profitably increases market share is a good channel.

In other cases, however, Sprint’s corporate headquarters needed to take direct action to encourage cooperation among divisions. By doing so, Sprint was able to create and exploit corporate-level strategic flexibility.

Creating Flexibility

In creating strategic flexibility, a corporate office must balance the immediate need for divisional autonomy with the potential need for future cooperation. Without this balance, divisions may act in ways that advance their current competitiveness but undermine opportunities to collaborate in the future. The way in which Sprint approached wireless Internet access is an excellent example of how to achieve balance.

Launched in 1998, Sprint PCS was an extremely successful new entrant into the wireless market, signing on
4 million customers in its first full year of operation. When it decided to add wireless Internet service to its existing wireless telephone service in 1999, PCS’s executives faced a critical decision: which software interface should it use for customer access to the Internet. (For various reasons—including the small size of the handsets—established Internet browsers like Netscape Navigator and Microsoft’s Internet Explorer were not options.) The key question was how much flexibility should PCS give consumers: should they be able to customize their access software by, for example, choosing a home page and other settings? Or should Sprint hardwire those features? From the division’s point of view, it was a no-brainer: give customers as many choices as possible. That would help the division gain market share and would probably make the new service profitable more quickly.

Corporate headquarters saw the problem differently. Taking a longer term, higher level perspective, the executives concluded that “owning” the interface between the customer and the network trumped the immediate appeal of growing market share quickly by appealing to customers’ interest in openness. They foresaw a time in the not-too-distant future when they’d want a common platform for various emerging products—narrowband, broadband, wireline, wireless, and so on. As a result, they overruled Sprint PCS’s executives. Even though there were no definite plans for integration, Sprint’s corporate office created flexibility by constraining the activities of its fastest-growing division. Had Sprint given PCS complete freedom to pursue its own course—one that made perfect sense in isolation—it could have undermined the scope of activities that the larger organization might pursue in the future. Strategic constraints of the kind Sprint imposed here are critical if a diversified corporation is to be genuinely flexible.

The use of strategic constraints should not be confused with routine intervention by a corporate office. To create strategic flexibility, divisions must still enjoy considerable operational autonomy and remain competitive as stand-alone businesses. Companies must walk a thin line—something Sprint’s corporate executives seem to have accomplished. In the PCS example, corporate executives imposed constraints on the division, but in other cases, the corporate office adopted a hands-off approach. Consider the following example, in which a division made major operational changes with only minimal oversight.

When the executives of Sprint’s consumer long-distance division thought their “dime a minute” marketing platform was getting stale—partly because its longtime spokesperson, Candice Bergen, was no longer starring in a popular television show—they wanted to lower their prices and make some other brand-altering decisions. Len Lauer, then president of the division, and his team developed the “nickel nights” concept, and Lauer ran it by Sprint’s COO, Ron LeMay. The two executives spent all of 30 minutes together, and then Lauer’s team was free to launch the new identity of the consumer long-distance company—and cut the price of its core product in half. The only constraint imposed was that the new program had to meet rate-of-return hurdles established by the finance staff to ensure that the company met its EVA targets. Determining the right market objectives—and the pricing tactics to meet those objectives—was the exclusive purview of the operating division.

The kind of operational autonomy that Sprint’s consumer long-distance organization enjoyed in this case demonstrates that a division must be a successful stand-alone business in its own right, rather than being dependent for success on future integration with other divisions. Corporate-level strategic flexibility is not merely staged integration, and the increasing interdependence of operating divisions is never a foregone conclusion. Instead, divisional autonomy is combined with strategic constraints to ensure that strong businesses—competitive in their own right—have the ability to integrate when and if the opportunity arises.

**Exploiting Flexibility**

The goal, then, is to make sure the company is in a position to move nimbly when opportunities for integration emerge. The way Sprint, for example, bundled its consumer long-distance and wireless services provides insight into the demands that exploiting strategic flexibility places on the corporate office.

Recall that Sprint PCS had been launched in 1998 and that its revenues and market share were growing extremely quickly. For the consumer long-distance division, the PCS business represented an invaluable opportunity to sell Sprint long distance: by bundling long distance with the popular wireless offering, the division could gain valuable market share.
The consumer long-distance marketing group was enthusiastic about exploiting Sprint PCS's distribution channels, but PCS's managers strongly resisted the idea. One reason was that the sales process for PCS services is a long and expensive one: it can take up to 90 days and four visits before a customer signs the contract. An integration initiative that merely tacked on consumer long-distance services to existing PCS offerings would run the risk of corrupting PCS's sales process, thereby undermining the very growth that the long-distance group sought to leverage.

It was a PCS product technologist who found a possible way out of that impasse. He came up with a plan to integrate long-distance and wireless services and increase the attractiveness of the PCS offering—in a way that promised to double the long-distance division's gross margin and improve customer value. His approach, which was dubbed "block of time," or BOTL, was based on PCS's model of selling blocks of time—100, 200, 500, 1,000 minutes per month—for a set fee. The sticking point in the typical sales process was that customers felt one plan didn't provide enough talk time, but the next offering provided too much. The new BOTL plan would allow customers to use the minutes for either long-distance or PCS services. This shift would mitigate customer concerns about over- or underbuying and let the long-distance group charge ten cents (rather than the now-standard five cents) a minute.

Whatever the theoretical attractiveness of this product offering, however, PCS's executives still resisted it vigorously. Their division was growing fast, and their compensation was linked to meeting targets developed long before this approach was proposed. Introducing products that might upset PCS's well-oiled and rapidly expanding distribution systems was legitimately viewed as a risky undertaking.

The corporate office saw the strategic value in the integration and intervened to allay the PCS division's various concerns. PCS's executives were worried, for example, that the long-distance business's high level of churn would increase their own churn. Tom Welgman, an executive vice president who'd been president of the consumer long-distance division before assuming a corporate role, tackled the churn debate at a very detailed level, developing a plan to roll out the bundled service in several test markets. PCS's executives also argued that introducing the BOTL plan so late in the year (it was slated for trial in the fourth quarter of 1999) would make PCS miss its operating targets. Al Kurtze, then an executive vice president in Sprint's corporate office and formerly the COO of Sprint PCS, stepped in and demonstrated how the new product tests could be rolled out without endangering targets for that fiscal year. As a result of the corporate office's efforts, BOTL was launched in test markets in 1999. It took the detailed, top-down involvement of the corporate executives to persuade division leaders that placing strategic constraints on the fast-growing division would improve competitiveness in the long run.

Another aspect of exploiting flexibility is to have malleable compensation structures that can reflect rapid changes in the degree of interdivisional cooperation. Sprint's management incentive program—which pays division presidents annual cash bonuses of up to 100% of their base salaries—certainly does that. No division president has more than 65% percent of the bonus dependent on his or her division's performance. The remaining 35% to 50% depends on the performance of other divisions, thereby providing an incentive to search for synergies. When Sprint believes that a potential synergy is ready for exploitation, it builds that belief into the compensation structure, resulting in dramatic swings in the allocation of bonus payments. For example, bonus payments tied to cross-selling initiatives can change by as much as 300% in a single year, accounting for 30% of the total incentive bonus payment.

Dynamic Thinking About Diversification

Sprint exemplifies many of the defining characteristics of strategic flexibility (see the exhibit "Characteristics of Corporate-Level Strategic Flexibility"). These characteristics lay the groundwork for a dynamic approach to managing corporate strategy at diversified corporations.

Any framework for thinking about corporate strategy is built on an understanding of how divisions interact with one another and how they interact with the corporate office. If divisions share valuable resources or capabilities, we take it as evidence of a strategy of related diversification. In such cases, the relationship between headquarters and divisions is structured to facilitate interdivisional cooperation. Divisions with related operations are often organized in groups, headed by corporate-level executives responsible for managing synergies between divisions within their groups. Alternatively, if divisions compete for
resources or capabilities, we take that as evidence of unrelated diversification. Division-level executives lead the organizations as stand-alone businesses; the corporate office typically exerts strong financial oversight but rarely intervenes in divisional affairs.

What is remarkable about Sprint is that the company doesn’t conform to either model. Nor is it making the transition from unrelated to related diversification (though this is what an observer might assume). Instead, Sprint is doing something new that calls into question several assumptions that have long been central to conventional thinking about the management of diversified organizations. Let’s look at how several other companies are challenging those assumptions and exploring new territory.

The first assumption is that diversification strategy must be either related or unrelated. But many companies are finding that some objectives are best pursued with stand-alone divisions and others with cooperating divisions.

This is precisely the approach Martin Sorrell has taken as CEO of WPP, the world’s largest marketing services firm. Over the past 15 years, Sorrell has created a collection of professional services firms that includes three of the largest ad agencies in the world—J. Walter Thompson, Ogilvy & Mather, and Young & Rubicam—as well as public relations, corporate identity, market research, and specialty ad firms. His goal: to provide soup-to-nuts marketing services to large clients. In the pursuit of that goal, somewhat counterintuitively, Sorrell’s structural moves have created unrelated, freestanding divisions. To sustain strong performance, a powerful finance and treasury staff has introduced the controls and incentive systems one expects to find in an unrelated diversifier.

At the same time, Sorrell has taken steps to encourage cooperation among stand-alone units. As at Sprint, incentive compensation and a stock program are managed to encourage cooperation. Most intriguing, perhaps, are WPP’s “virtual companies.” These organizations have essentially no staff—a CEO and an assistant at most—and no offices. One, the Common Health, became the world’s biggest health care marketing services firm with just a single employee—the CEO. For each project, the CEO would assemble a team from an ever-shifting alliance of subsidiaries, selecting the right capabilities to respond to each client’s needs.

Yet even the virtual companies, built on a model of strong interdivisional cooperation, have structures and processes that resemble those of an unrelated diversifier. The virtual companies have no income statement; profit and loss is calculated by project and allocated to the participating subsidiaries. Compensation is based on subsidiary performance and, to a significant extent, one’s career develops in a given subsidiary.

WPP’s approach demonstrates that it is possible to pursue varying degrees of relatedness among divisions. That is, some divisions are tightly linked, others operate in a more loosely allied way, while others are entirely stand-alone. Moreover, at WPP, the degree of relatedness waxes and wanes depending upon strategic circumstances. Relatedness is sought only when the professionals within freestanding businesses believe that they can serve their clients better by achieving it.

A second assumption of traditional thinking is that only business units—not the corporate office—create value for the company. But we’ve found the corporate office can create value by assembling a portfolio of assets and capabilities that will drive competition in the future—and managing those assets in a flexible way so as not to hinder the ability of the divisions to compete now. Although the performance results show up in better competitiveness at the business-unit level, the seeds of the future success—the value creation—reside in the forward-looking actions of the corporate office.

Consider how the CEO of Teradyne, a manufacturer of chip-testing equipment, created new value by fostering an emerging technology in the face of divisional resistance. Through the mid-1990s, Teradyne’s primary product line

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**CHARACTERISTICS OF CORPORATE-LEVEL STRATEGIC FLEXIBILITY**

Companies create flexibility by balancing the competing demands of divisional autonomy in the present with divisional cooperation in the future. They exploit flexibility by moving nimbly when opportunities for cooperation emerge.

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<th>PHASE</th>
<th>Defining Characteristics</th>
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<td><strong>CREATING</strong></td>
<td>• Build a portfolio of businesses between which valuable synergies are possible, now or in the future</td>
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<td></td>
<td>• Ensure that divisions have sufficient autonomy to develop business models and succeed as stand-alone entities</td>
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<td>• Impose strategic boundaries to ensure that future integration remains possible</td>
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<td>• Reward search activity</td>
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<td><strong>EXPLOITING</strong></td>
<td>• Promote integration opportunities when they are expected to be profitable to the company as a whole</td>
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<td></td>
<td>• Engage division-level resistance</td>
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<td></td>
<td>• Change reward systems to reflect the importance of interdivisional cooperation</td>
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consisted of highly engineered, very expensive testers sold to manufacturers of microprocessors. Each division had separate manufacturing facilities and a separate P&L; they competed for budget and capital and were compensated based on divisional performance. However, they all sold and serviced their products through a single global organization.

In the early 1990s, CEO Alex d'Arbeloff realized that new chip technology and advances in software might lead to interdivisional cooperation. When none of the divisions would allocate the talent necessary to develop this potentially disruptive technology, d'Arbeloff intervened. He established a start-up subsidiary that reported outside the regular control system to an internal board of directors. As the product developed, he insisted that the subsidiary make regular briefings to the other divisions. The degree of relatedness waxes and wanes depending upon strategic circumstances. The corporate office eventually allocated the talent necessary to develop the new chip technology, turning it into a hit.

TWO APPROACHES TO MANAGING DIVERSESIFIED COMPANIES

Conventional wisdom assumes that divisions are either related or unrelated and that new value is created only at the business-unit level. New thinking, however, offers a dynamic approach to cooperation among divisions, through direct action by the corporate office.

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<th>Static Thinking</th>
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<td>Diversification strategy is either related or unrelated; interdivisional relationships are static.</td>
<td>Diversification strategy can be a mixture of related and unrelated elements; companies can pursue varying degrees of relatedness between divisions. The degree of relatedness waxes and wanes depending upon strategic circumstances.</td>
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<tr>
<td>Corporate value is created exclusively at the business-unit level.</td>
<td>Corporate value is also created at the strategic level: portfolio structure can create shareholder value.</td>
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<tr>
<td>Corporate-divisional relationships are driven exclusively by business-unit needs.</td>
<td>Corporate-divisional relationships are significantly affected by corporate-level strategic considerations.</td>
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make a smaller, more flexible tester possible. When none of the divisions would allocate the talent necessary to develop this potentially disruptive technology, d'Arbeloff intervened. He established a start-up subsidiary that reported outside the regular control system to an internal board of directors. As the product developed, he insisted that the subsidiary make regular briefings to the other divisions to share knowledge of the new technology. When new customers (minicontroller manufacturers) embraced the tester — turning it into a hit — the sales force rallied around what had been an ugly duckling. Existing divisions recognized the need and opportunity to cooperate with the new division and began to adapt the new chip and software technology.

If the corporate office can generate value by creating a forward-looking portfolio, it follows that headquarters needs to influence division-level decisions, especially those that might lead to interdivisional cooperation. Stated simply, there is a clear role for selective top-down, detail-oriented corporate management. And so crumbles the third and final assumption about diversification — that corporate-divisional relationships are driven exclusively by the needs of the divisions.

Global media giant Viacom illustrates the benefits of an activist corporate office. In 1998, Paramount, Viacom's movie studio, was negotiating European distribution agreements with the Kirsch Group, the leading German media conglomerate. With a $1 billion offer on the table, Paramount was anxious to close the deal. But MTV and Nickelodeon (both part of Viacom) also wanted to establish positions in the German market. Viacom's president encouraged the divisions to develop a collective position, and division managers spent several months at the end of 1998 attempting, but failing, to do so. Early in 1999, Sumner Redstone, Viacom's chairman and majority shareholder, intervened directly. He traveled to Europe, met with many of the key players in the German market, and developed an auction for the Paramount films. Several media companies, including Kirsch, bid on the distribution rights. When the contract was finally signed, it was for $2 billion — and it included access for both MTV and Nickelodeon.

Like the executives at Sprint, WPP, and Teradyne, Redstone intervened based on his unique corporate-level understanding of the value of synergies between divisions and the singular power of the corporate office to effect integration quickly. When he took action, he was careful not to undermine the principles of decentralized operating authority that governed the divisions, which the company continued to value. However, Redstone, like all these executives, understood that long-term strategic integration requires selective, top-down intervention by the corporate office from time to time.

The differences between the more static view of diversification and the dynamic approach described here are summarized in the exhibit “Two Approaches to Managing Diversified Companies.” This comparison reveals that, where traditional thinking was comparatively rigid, the new thinking is aligned with the dynamic needs of corporate-level strategic flexibility.

Preparing for Dynamic Moves

The companies that will benefit most from a dynamic approach to corporate strategy are those operating in highly uncertain competitive environments in which, despite the uncertainty, the need to make significant portfolio-level investments remains. It is no accident that the companies profiled here come from just such environments.
MANAGING DIVISIONS IN STABLE VERSUS UNCERTAIN MARKETS

The need for strategic flexibility in some companies does not render traditional frameworks for thinking about managing diversified companies invalid in all competitive contexts. Those that will benefit the most from strategic flexibility are companies operating in uncertain markets. But many well-managed and respected diversified corporations will continue to conform to traditional approaches for the simple reason that they remain entirely appropriate.

Consider, for example, AlliedSignal. Acquired by Honeywell in 2000, which in turn was acquired by GE in 2001, AlliedSignal was a creation of the diversification wave of the late 1970s and early 1980s. Under the leadership of Larry Bossidy from 1991 to 2000, AlliedSignal was a paragon of the multibusiness enterprise, and there was very little about the organization that suggested the kind of strategic flexibility that characterizes Sprint, WPP, Teradyne, and Viacom.

For instance, AlliedSignal made extensive use of a group structure; corporate-level executives were responsible for managing synergies between divisions within their groups. Consequently, the company had an aerospace group, a plastics group, a chemicals group, and so on. Although grouping divisions in this way improves the information-processing capacity of the organization as a whole, it can also restrict the interactions between divisions that are not in the same group. The imposition of a hierarchical structure serves to filter information, embed patterns of communication in reporting relationships, and make it more difficult for managers to see and act upon opportunities for cooperation between operating units. In a sense, then, a traditional group structure serves to hardwire the nature of the possible links within a diversified corporation.

This was a small price to pay for AlliedSignal, since there was very little uncertainty or variability in the nature of interdivisional relationships. Simply put, it was unlikely that the Prestone antifreeze division in the consumer products group would have much to offer the engine systems division in the aerospace group, so the increased efficiency of the group structure more than outweighed the cost of any lost flexibility.

At Sprint, by contrast, rapid changes in the telecommunications industry continue to make it difficult to predict where and when key linkages might emerge. There are potentially compelling arguments to be made for grouping long-distance with local service or bundling wireless access with long-distance service or integrating local service with wireless access, and so on. With so many possibilities and such uncertainty, Sprint cannot afford to sacrifice its flexibility in execution, and so the company has avoided imposing a group structure. Consequently, all of Sprint's operating divisions report directly to the corporate office.

Compensation systems also reinforce either traditional or flexible diversification strategies. The compensation systems at AlliedSignal reflected the stability of the relationships between its divisions. The compensation of managers whose divisions were operationally linked was tied to their joint performance. Compensation structures for operating units that had no material links with other operating units contained no interunit components. That approach is in stark contrast to Sprint's compensation system, in which every division's compensation is tied to every other unit regardless of whether links actually exist.

When it came to exploiting synergies at AlliedSignal, corporate executives typically exerted pressure on the divisions, but operating managers chose how to respond to that pressure. In other words, in keeping with traditional management thinking, the corporate office took advantage of its broader view to press for more synergies where appropriate, but it respected the more detailed knowledge of those closest to the work and the customers. Similarly, strategy formulation at AlliedSignal required the corporate office to provide financial targets but relied on operating managers to develop specific initiatives to meet those targets.

At Sprint, both of those processes work quite differently. Operating divisions are subject to strategic constraints as part of their strategy formulation process. This serves to create flexibility. But, to exploit that flexibility, division managers must take more than passing notice of the detailed input provided by corporate executives.

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<th>COMPARING TRADITIONAL AND FLEXIBLE CORPORATE MANAGEMENT SYSTEMS</th>
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<td><strong>TRADITIONAL SYSTEMS FOR A STABLE BUSINESS ENVIRONMENT</strong></td>
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<tr>
<td>Extensive use of group structure</td>
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<td>Stable compensation systems linked to existing interdivisional synergies</td>
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<td>Integration efforts typically identified by senior management but designed and implemented by operating management</td>
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<td>The corporate office guides the formulation of strategy by imposing financial constraints</td>
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<tr>
<td><strong>FLEXIBLE SYSTEMS FOR A RAPIDLY CHANGING BUSINESS ENVIRONMENT</strong></td>
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<tr>
<td>Little or no use of group structure</td>
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<tr>
<td>Rapidly changing compensation systems that reward cooperative behavior, even if there are no current linkages</td>
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<tr>
<td>Integration efforts identified and designed to a large degree by corporate management over the active resistance of operating management</td>
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<tr>
<td>The corporate office guides the formulation of strategy by imposing strategic constraints</td>
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At Sprint, competing successfully in the wireless business meant moving quickly to secure spectrum licenses and investing billions in infrastructure. If WPP was to include the marquee advertising brands in its stable, it had to acquire those businesses when they became available. And Teradyne's new business development efforts had to proceed at least as quickly as the underlying technology evolved.

In each case, portfolio diversification preceded the integration efforts, which had always been a part of the original strategic intent. Forced to diversify before meaningful synergies can be captured, flexible corporations must maintain the competitiveness of each individual business. To do so, they rely on the strict financial controls and the divisional autonomy typically seen in more static, unrelated diversified companies. At the same time, if future integration is to remain a possibility, the corporate office must impose strategic constraints, lest complete independence lead to the pursuit of division-level strategies that undermine possible future synergies. Coping with the disconnect between expanding the corporation's portfolio and integrating divisions in pursuit of synergy requires the adoption of four management tactics.

**Combine strict financial controls with a flexible structure.** The powerful financial controls and planning associated with traditional diversified companies must be in place to ensure that individual businesses maintain strong performance results. However, a conventional group structure is likely to be inappropriate. Group structures typically make it more difficult for the corporate office to identify and assess the full range of possible cross-divisional opportunities. Moreover, interdivisional cooperation is usually hardwired by the structure, limited to divisions in the same group. Group structures also tend to make it more difficult for corporate line leadership—not financial or planning staff—to communicate regularly with operating business managers about strategic questions. A more flexible structure, coupled with tight financial controls, best serves a dynamic corporate strategy. Compensation structures, too, must be flexible enough to support frequent and significant changes in strategic priorities.

**Be a player.** If corporate leaders are going to contribute to the substance of strategy, they need to be informed. That means being out in the market and in touch with customers, regulators, competitors, Wall Street analysts, and even academics. At Sprint, CEO Bill Esrey was a key player in Washington as the telecommunications debate evolved. At Teradyne, Alex d'Arbeloff kept himself informed about cutting edge technology through an active role in the venture capital community, extensive volunteer activities at MIT, and regular attendance at industry meetings. Sumner Redstone is notorious in his company for talking to anyone and everyone about the issues he believes are important.

**Have a lean but powerful corporate office.** For all the corporate-level activity, the corporate office supporting a dynamic strategy should be relatively small. With the exception of finance and human resources, most staff positions should remain in the divisions. The executives in the corporate office are there to help the CEO; they usually have worked closely with the CEO in the past and gained his or her trust. Their importance lies in their judgment, not in their formal roles. At Sprint, the two corporate executives charged with driving interdivisional cooperation had extensive operating experience at the company. Each was supported by a staff of two or three people at most. These few executives formed a kitchen cabinet rather than a structured corporate staff with assigned responsibilities.

**Spend time on strategy.** Divisional executives can't waste time when they are with the CEO. Monthly or quarterly reviews of operations are necessary, but the focus of the executive meetings has to be the strategic opportunities that markets offer, regardless of divisional lines. In addition to formally scheduled meetings, corporate and division executives should have frequent conversations that are not cluttered up with operational issues. Operating executives at Sprint and Viacom speak of being on the phone with their CEOs often. Martin Sorrell uses e-mail to stay in constant touch with his operating executives—and most anyone else who writes him.

Creating a truly dynamic corporate strategy goes far beyond merely attempting to combine various existing approaches. It is not enough for the corporate office to be by turns directive and standoffish. Nor should it attempt to be both simultaneously. Rather, dynamic corporate strategy is something fundamentally different that brings with it a host of new management challenges. As the forces of change impinge ever more sharply on an increasing range of industries, we expect that more and more diversified companies will benefit from thinking—and acting—in ways that create and exploit corporate-level strategic flexibility.

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