

**THE DYNAMIC CONFIGURATION AND  
GOVERNANCE OF BUSINESS PORTFOLIOS  
IN MULTI-BUSINESS FIRMS**



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For the last couple of years, my primary interest at the Institute of Management (University of St.Gallen) has been in the area of Corporate Strategy research. My research endeavours in this area can be broadly classified into three complementary sub-dimensions.

### **1) Intended vs. Realized Corporate Strategies : Evolution of Corporate Strategies in Multi-Business Firms**

Applying an intraorganizational evolutionary lens, studies in this area have centered on two specific questions : What causes firms to diverge from their publicly announced corporate strategies ? How does this divergence evolve over time and under different environmental and intra-organizational conditions ?

Exemplary papers in this area are :

Brauer, M. (2008). 'Determinants and Temporal Dynamics of Strategic Divergence : Evidence from Europe' *Academy of Management Annual Meeting, Finalist for the 2008 Carolyn Dexter Best International Paper Award*, Anaheim, CA (with Heitmann, M.).

#### **Abstract**

*Building on Burgelman's (1983a) and Lovas' and Ghoshal's (2000) intraorganizational evolutionary models of strategy formation, this paper empirically investigates the determinants and temporal dynamics of strategic divergence. Strategic divergence is the deviation of a firm's resource allocation decisions with its articulated concept of corporate strategy. The study draws on 11,406 resource allocation decisions of twenty-five publicly listed European multi-business firms. The empirical results indicate that factors such as operational and divisional manager decision making or structural context changes which are central to Burgelman's (1983a) and Lovas' and Ghoshal's (2000) models indeed exert a significant influence on strategic divergence. In extension to their works, this study finds that decision type also has a significant effect on strategic divergence. This article advances and redirects extant insights by showing that firms' levels of strategic divergence tend to increase over time and that the determinants of strategic divergence have a differential impact as time passes.*

*Keywords : strategic divergence, intraorganizational evolutionary process of strategy formation*

Brauer, M. (2006). 'Exploring strategy implementation consistency over time : The moderating effects of industry velocity and firm performance.' *Journal of Management and Governance*, 10(2): 205-226 (with Schmidt, S.).

### **Abstract**

*In this paper we empirically investigate the temporal development of a firm's strategy implementation consistency, i.e. the alignment between firms' resource allocation decisions and their articulated corporate concept (Noda and Bower, 1996 ; Burgelman and Grove, 1996 ; Love, Priem and Lumpkin, 2002 ; Mintzberg, 1978). Doing so, we test whether (1) strategy implementation consistency is more likely to increase or decline over time, (2) whether firms competing in (low) high-velocity environments in fact show different temporal patterns in strategy implementation consistency, and (3) whether overperforming firms succeed in conserving their level of strategy implementation consistency. For our analysis we draw on 6238 resource allocation decisions of 20 publicly listed firms with European origin over a period of four to six years. Applying maximum likelihood ordered logit estimation, our results indicate that the likelihood of an alignment of resource allocation decisions and a firm's corporate concept decreases over time. In line with scholars' perception of high-velocity environments, we find that the firms in our sample competing under such conditions show no clear trend in strategy implementation consistency. These firms tend to "zig-zag" over time – swaying off and pulling back to their strategic course independent of the timing of the announcement of a corporate concept. We also find that overperforming firms are unsuccessful in preserving their strategy implementation consistency at the same level over time. Based on the empirical findings the paper discusses implications for theory and derives suggestions for corporate level managers on how to balance strategy implementation consistency and strategic flexibility.*

## **2) M&A and Divestitures as Building Blocks of Firms' Corporate Strategies : Paths and Patterns in Firms' Portfolio Activities and their Performance Implications**

Mergers and acquisitions have been commonly perceived as the major building block through which a firm's corporate strategy is shaped. In

comparison, the role of divestitures has been largely understated. Thus, it has been my ambition to put (back) divestitures on the research agenda of corporate strategy scholars. Moreover, I perceived that though firms' portfolio activities (incl. M&A, divestitures, JVs) as a whole have been among the most extensively researched areas in the field of strategic management, we still lack answers to a number of fundamental questions. In particular, fairly little is still known about the pace, paths and patterns in firms' portfolio activities and their performance implications. Mostly applying longitudinal research methods, my works in this area are thus intended to shed light on these dynamic aspects and their impact on firm performance.

Exemplary papers in this area are :

Brauer, M. (2006). 'What have we acquired and what should we acquire in divestiture research ? A review and research agenda.' *Journal of Management*, 32(6): 751-785.

#### **Abstract**

*In strategic management research, divestitures have mostly been treated as side aspects or mirror images of even broader phenomena such as corporate restructuring or mergers and acquisitions. The current article "unbundles" portfolio restructuring research by carving out the insights that have been generated on the specific industry and firm-level determinants of divestitures, the financial and organizational implications of divestitures, as well as the divestiture process since the 1980s. Through the consolidation of the dispersed knowledge on divestitures, its critical analysis, and the outline of novel avenues for future research, the article aims to reenergize divestiture research in management science.*

*Keywords : divestiture, corporate restructuring, portfolio research*

Brauer, M. (2007). 'Exploring temporal patterns in firms' scale and scope activities and their performance implications.' *Academy of Management Best Paper Proceedings and Honorable Mention OMT Best Paper Award*, Philadelphia, PA (with Alscher, A.).

#### **Abstract**

*The claim that organizations competing in highly turbulent environments behave chaotically has been prominent in contingency, co-alignment, and co-evolution research. The term chaotic, however, has mostly*

*been used metaphorically. Whether organizational activities indeed unfold in a chaotic manner in the true scientific sense, i.e., unpredictable but still deterministic, or whether they behave randomly or in a predictable periodic fashion has remained unexplored so far. Based on a longitudinal analysis of the portfolio configuration activities of eight German multibusiness firms within turbulent and stable industries, the paper thus explores whether firms competing in turbulent environments show truly chaotic or random patterns in their portfolio configuration activities and whether firms in stable environments display predictable periodic patterns in their portfolio configuration activities. Additionally, the study tentatively explores whether firms whose temporal patterns in their portfolio configuration activities are aligned with the environment's dynamism in fact outperform those firms which fail to do so. Results show that not only firms in turbulent but also firms in stable environments display random patterns in their portfolio configuration activities. Extending extant insights into time and event pacing, results thus indicate that only very few firms are able to independently determine the rhythm of their portfolio configuration activities despite strict financial control and explicit target rate setting in portfolio planning. Counter-intuitively, comparative performance analysis further reveals that firms with random patterns outperform firms with deterministic patterns independent of the degree of environmental dynamism. Generally, an emphasis on temporal flexibility over control thus seems beneficial in business portfolio management.*

Brauer, M. (2007). 'Path dependence in the portfolio configurations of German multibusiness firms.' *Academy of Management Annual Meeting*, Philadelphia, PA (with Alscher, A.).

### **Abstract**

*The research study investigates path dependence in portfolio configuration activities (i.e., investments [M&A], divestments, and cooperations). Though the notion that "history matters" has been widely acknowledged in corporate strategy and organizational theory research, few studies have yet directed empirical attention to path-dependence in firms' portfolio configuration. The existing contributions have failed to distinguish between the different orders of path-dependence and mostly examined the individual configuration activities separately without considering possi-*

ble interaction effects and different learning modes in path dependence. The current study aims to remedy these two shortcomings by exploring the different orders of path-dependence underlying the portfolio configuration activities of the four largest German multi-business firms. Applying econometric time series analysis (ARIMAX/VAR), we find that a.) different orders and forms of path dependence in portfolio configuration activities exist ; b.) the occurrence of the different orders of path dependence depends on the organizations' degree of de-/centralization ; c.) the separate activities of investment, divestment, and cooperation show different orders and forms of path dependence than the compound portfolio configuration. Based on a set of propositions on the occurrence and determinants of different orders of path dependency, the study advances literature by providing a more coherent theory of path dependence.

*Keywords :* path dependence, portfolio configuration, organizational learning and routines

Brauer, M. (2008). 'Struggling between Growth Desperation and Indigestion : Performance Dynamics of M&A and Divestitures' *Academy of Management Annual Meeting*, Anaheim, CA (with Laamanen, T.).

### **Abstract**

*This paper examines the performance dynamics of acquisitions and divestitures carried out by the largest, publicly listed European firms between 1996 and 2006. We contribute to the emerging acquisition program research stream by showing that the ways firms tend to engage in acquisitions and divestitures causes them to oscillate between indigestion and growth desperation challenges. We find that neither of these conditions are desirable and can cause firms to do further non-optimal decisions that result into actions that may cause overshooting to the other extreme and impair a firm's longer-term performance. Consistent with this, we find that while a higher average growth rate contributes positively to longer-term performance, the variability in the growth rate decreases the positive effect. Overall, our findings thus contribute to an improved understanding of the organizational dynamics of optimal growth paths – a topic that continues to be of great interest not only to academics but also to business practice.*

*Keywords :* Acquisition, divestiture, acquisition program, growth path

### 3) “Inside” the Building Blocks of Firms’ Corporate Strategies : Portfolio Decision-Making and Implementation Process Characteristics

Closely related to my research endeavours on the pace, paths, and patterns in firms’ portfolio activities, my work in this area is concerned with getting inside the “black box” of acquisition and divestiture decision-making and implementation processes. This research has been motivated by the fact that we still lack sound answers to very fundamental questions such as : What are key actions or practices by managers in acquisition and divestiture processes ? How do corporate and divisional level managers interact in divestiture initiation and implementation ? How do managers actually make portfolio decisions ? What are the most effective ways of making these decisions in order to improve transaction outcome ?

I believe that it is essential to gain a better understanding of these in-depth issues in order to resolve the equivocality present in extant research on the performance implications of firms’ portfolio activities.

Exemplary papers in this area are :

Brauer, M. (2008). ‘Corporate and divisional manager involvement in divestitures – A contingent analysis’. *British Journal of Management*, forthcoming.

#### **Abstract**

*In prior research, insights into the degree and type of corporate and divisional level manager involvement in divestiture processes have remained sparse. Based on extant empirical research on managerial processes in divestitures and a review of literature on the antecedents of divestitures, this paper identifies a set of internal and external contingencies which potentially influence the degree of corporate and divisional level manager involvement in divestitures. Findings from an in-depth case study of four, parallel divestitures by a major European technology company (TechCo) in the late 1990s indicate which of these contingencies seem to have a relevant influence on the involvement of the different managerial levels in divestiture processes. The contingent approach contributes to theory by providing explanations for existing, conflicting empirical evidence concerning the degree and type of corporate and divisional level*

*manager involvement in divestiture processes. The second major theoretical contribution of the paper lies in the identification and description of the type of managerial actions these different contingencies bring about.*

Brauer, M. (2008). 'Managerial Practices for Fast-Paced Implementation of Radical Change : The Case of Unit Divestiture' *Academy of Management Annual Meeting*, Anaheim, CA.

### **Abstract**

*In organizational change research, the speed of radical change efforts has been argued to be critical for change outcome, and, in fact, even overall firm success and survival. Prior research on this issue, however, has generated ambiguous results suggesting that speed may not be uniformly good or bad. Instead, whether implementation speed is beneficial or not seems to be contingent on various factors – both internal and external to the firm. Consequently, the managerial practices which may be used to calibrate implementation speed in radical change efforts become of major importance. These practices, however, have remained unexplored so far. Based on an in-depth analysis of how MultiCo, one of Europe's largest electronics' companies, implemented the divestiture of its semiconductor business, this study seeks to fill that empirical gap. By identifying a specific set of practices corporate level managers apply to increase the speed of the divestiture implementation process, the study contributes to both organizational change research as well as business practice.*

### Current and Future Work in this area :

In 2008, I conducted a large-scale survey study on portfolio decision making in major publicly listed firms in Germany and Switzerland. In various paper projects, I currently investigate the impact of critical dimensions of the portfolio decision-making and implementation process such as...

- decisional comprehensiveness
- politicality
- consensus
- implementation speed

...on individual transaction outcome.



Last but not least, I perceive it as the duty of an engaged management scholar to try to transfer scientific findings to practice, to proactively seek the dialogue with business practitioners and to comment (if possible) on management issues of great concern to both business practice as well as society as a whole. For that purpose, my colleagues and I, for instance, attempted to provide some tentative, practical advice on the strategic role of the board in the face of the world-wide crisis in corporate governance.<sup>1</sup> Furthermore, against the backdrop of the most recent subprime crisis, we tried to put the issue of managerial short-termism into perspective.<sup>2</sup> Specifically, we tried to explain the origins of managerial short-termism, to highlight the trade-offs between short- and long-term orientation as well as to devise some remedies on how to balance both long- and short-term orientation. From these contributions resulted a phenomenologically driven research project on the performance implications of managerial short-termism.<sup>3</sup> I am very grateful to the University of St.Gallen and the Directors of the Institute of Management, in particular, for their encouragement to tackle real-world problems and to engage in an active dialogue with business practice.

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<sup>1</sup> See e.g., Brauer, M. (2008). 'Defining the strategic role of boards and measuring their effectiveness.' *Corporate Governance: International Journal of Business in Society*, 8(5): 649-660 (with Schmidt, S.); Brauer, M. (2006). 'Strategic governance: how to assess board effectiveness in guiding strategy execution.' *Corporate Governance: An International Review*, 14(1): 12-21 (with Schmidt, S.); Brauer, M. (2005). 'Corporate Governance: Möglichkeiten des Aufsichtsrats zur sachgerechten Kontrolle von Managerverhalten und Firmenpolitik.' *German Journal of Industrial Relations*, 12(3): 306-322 (with Schmidt, S.); Brauer, M. (2005). 'Lassen Unternehmen ihren Worten auch Taten folgen?' *IO Management*, 12: 20-26 (with Schmidt, S.).

<sup>2</sup> Brauer, M. & Mueller-Stewens, G. 2008. Neues Denken Fördern, *Wirtschaftswoche*, Vol. 25 : 52-53.

Brauer, M. & Mueller-Stewens, G. 2008. Zwischen Quartalsdenken und Langfrist-Orientierung ; *Das Topmanagement im Clinch zwischen gegensätzlichen Anforderungen*, Neue Zürcher Zeitung, 97 ed. : 33. Zurich.

<sup>3</sup> See e.g., Brauer, M. (2008). 'The Effects of Short-Term and Long-Term Oriented Managerial Behavior on Medium-Term Financial Performance: A Longitudinal Analysis' *Strategic Management Society Meeting*, Cologne, Germany.

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