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Corporate Portfolio Management: Theory and Practice

by Ulrich Pidun, Harald Rubner, Matthias Krühler, and Robert Untiedt, The Boston Consulting Group,¹ and Michael Nippa, Freiberg University

In 1970, Bruce D. Henderson, founder of The Boston Consulting Group, introduced the growth-share matrix, a framework for categorizing the various businesses in a company's portfolio in terms of their relationship to each other and to the company as a whole on the basis of competitive advantage and growth—the now-classic stars, cash cows, dogs, and question marks.² Since that time, the concept of corporate portfolio management has revolutionized the way CEOs and boards think about corporate strategy and is still a hotly debated topic among both academics and practitioners. (See, for example, “Corporate Portfolio Management Roundtable,” published in the Spring 2008 issue of this journal.)

Many companies have used the simple growth-share matrix and its various offshoots to address three of the central questions for managing a multi-business company: (1) What are the boundaries of the corporation—which businesses should be part of the corporate portfolio and what is the underlying logic? (2) How should resources—and capital, in particular—be allocated to the different businesses? (3) How can the goals and actions of the individual business units be aligned with the interests of the corporation as a whole and with the interests of its shareholders?

The growth-share matrix offered appealingly simple guidelines for these difficult questions:

• The businesses in a portfolio play different roles according to their ability to generate cash and their need for growth investment.
• Businesses should have specific strategic missions and financial targets depending on their role in the portfolio.
• A good portfolio is balanced with regard to cash generation and cash consumption: it contains some cash cows, which can finance the question marks in order to turn them into stars, which will in turn become the future cash cows.

The growth-share matrix was developed in the early days of modern corporate finance, when it was reasonable to assume that a major goal of corporate portfolio management was to balance cash flows among the businesses in a portfolio (a goal that regained relevance during the recent financial crisis when external financing suddenly became a bottleneck). Cost structures in most industries were strongly influenced by scale and experience curve effects, so size mattered a lot and relative market share was a good proxy for profitability and cash generation—and the growth rate was a proxy for investment needs.

But while the strategic challenges and objectives behind these assumptions are still valid, the assumptions themselves are less so. In fact, the rise of the private-equity ownership model has led to a more demanding standard of performance—and raises a fourth question for managing a multi-business firm: What is the real operating value of a particular business, and is that value being maximized in the current corporate structure or would a different owner do better? In short, the corporate parent—and the impact of corporate resources and capabilities—has taken center stage in the corporate strategy debate.

The concept of parenting offers a clear framework for corporate portfolio strategy. Parenting advantage, which is defined in terms of a particular corporation being the best possible owner of a particular business, should be the guiding principle for all corporate-level decisions: it should determine the nature of the businesses in the portfolio as well as the structure and organization of the corporate parent and its activities. The main goal of corporate strategy should be to clarify how and where the company can achieve parenting advantage. In order to create value, the characteristics of the corporate parent must be well suited to the critical success factors of its businesses and their specific needs and opportunities. Corporate parents must focus on how their parenting approach can create value for their businesses.

To what extent do today’s corporations apply these principles? More fundamentally, how do diversified companies analyze and manage their corporate portfolios? What processes have they established and who is responsible for them? What are the key applications of corporate portfolio management (CPM)—from deciding the scope and shape of the corporate portfolio to allocating resources and setting strategic and financial targets for the individual business units? Most important, how satisfied are today’s companies with their current approach to CPM? What are the typical barriers to successful portfolio management and how can they be overcome?

¹. Matthias Krühler and Robert Untiedt were Ph.D. students at Freiberg University when the research for this paper was conducted.
To answer these questions, The Boston Consulting Group, in collaboration with Freiberg University in Germany, conducted a comprehensive global survey on the practice of corporate portfolio management among more than 200 CPM specialists at the largest companies worldwide. (For details on the survey methodology, see the sidebar “About the Survey.”) The key findings can be summarized as follows:

- **CPM use:** Two-thirds of the participating companies apply CPM regularly or as a major part of their management process. Most companies (90% of those that responded) still focus on the traditional criteria of market attractiveness, competitive position, and financial performance. Increasingly, however, criteria such as parenting advantage, risk, and portfolio balance are considered important, although their application is hampered by a lack of adequate quantitative metrics and instruments.

- **CPM process:** In the majority of companies, corporate portfolio management is a regular process driven from the top: the executive board and corporate staff are typically involved throughout the entire process, whereas division and business unit staff are involved at less than half of the respondents’ companies—and they mainly perform and interpret portfolio analyses. About 60% of the companies integrate CPM into their strategy development and long-term planning processes, with much less integration into investment budgeting and financial target-setting.

- **CPM applications:** Most companies use CPM mainly to create transparency and identify a need for action at the business and overall portfolio level, applications that about 80% of the participating companies consider to be relevant. Resource allocation and financial target-setting are regarded as somewhat less important. Nonetheless, only 40% of recent divestitures and 23% of recent acquisition decisions were said to be triggered by portfolio considerations, indicating that there is a significant gap between the effort that many companies put into CPM processes and their role in corporate-level decision-making.

- **Best practices:** More than half of the participating companies claimed to be dissatisfied with their current approach to corporate portfolio management, mainly because of the inefficiency of processes (25% of respondents) and the weak acceptance and support by business units (21% of respondents). Companies with a high level of satisfaction tend to have a more holistic perspective of their portfolio, and they are more likely to consider—and even quantify—the risk profile and overall balance of their portfolio as well as synergies between businesses. Satisfied users also have more standardized instruments and processes and better integrate portfolio management into their other corporate processes.

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in which the stage of industry maturity is plotted against the competitive position of a business. 4

Although there were many variations, the basic idea behind the different portfolio concepts remained the same. Each strategic business unit (SBU) of a multi-business company was categorized along two dimensions: product or market attractiveness and competitive position. Depending on its location in this two-by-two matrix, the strategic challenges for each business unit were identified and a strategic mission was developed. There were two basic types of approaches: those that relied on a single numerical criterion along each axis (such as the BCG matrix), and those that used a scoring model to aggregate multiple criteria, including more qualitative and subjective ones (such as the GE/McKinsey matrix).

These early portfolio concepts were successful in the corporate marketplace because they addressed needs that had arisen with changes in the economic environment in the 1960s. As excess cash and the saturation of traditional markets fostered diversification into new businesses, the top managements of diversified firms faced the growing challenge of managing a broader set of sometimes unrelated businesses. Leaders of large companies could not possibly be familiar with the relevant strategic issues of each business unit, and they ran the risk of applying uniform strategic and financial targets and misallocating resources as a result. Portfolio concepts helped corporate managers gain insight into the strategic challenges of individual SBUs, allocate management attention among businesses accordingly, and increase their selectivity in resource allocation.

By the early 1980s, corporate portfolio-planning approaches were broadly established at diversified companies. As reported by Philippe Haspeslagh in the Harvard Business Review in 1982, a large-scale study involving 345 senior executives revealed that 45% of Fortune 500 companies used portfolio management concepts, mainly to allocate resources efficiently or respond more effectively to performance problems. 5 The majority of respondents considered their portfolio management approach to be successful, particularly because it improved the capacity for strategic control and steering by headquarters while enabling senior leaders to adapt their management processes and resource allocation to the needs of each business, thus substantially improving the quality and outcomes of strategies.

Academic Criticism

Despite their rapid and widespread acceptance by corporate managers, portfolio concepts were criticized in the academic literature from the beginning. Apart from the standard argument that diversification is easily accomplished by investors holding a broadly based stock portfolio, this criticism fell into three major categories: (1) denying the validity of portfolio concepts in general, (2) questioning the underlying assumptions and basic instruments of portfolio analysis, and (3) criticizing the inadequate application of these instruments.

Critics questioning the general validity of portfolio concepts mainly warned against the risk of oversimplification of the complex and interdependent strategic decisions of multi-business companies 6—particularly the practice of setting strategy on the basis of a business’s positioning in a simple two-dimensional grid. 8 The strategic recommendations for an SBU were said to be very sensitive to the specific portfolio approach. 9 Of course, much of this criticism assumes that the portfolio techniques are used mechanically to replace strategic decision-making rather than to guide and support strategic thinking. Simplicity can be an important benefit in the latter context.

A second stream of criticism focused on the specific underlying assumptions and basic instruments of corporate portfolio management, including the inherent ambiguity in the definitions of strategic business units, the relevant markets, and the matrix axes. 10 Other critics from this stream pointed out that existing portfolio instruments lack important perspectives such as risk, capabilities, longevity, and competitive expectations. 11 While some of this criticism is clearly justified, it should lead to the refinement of portfolio concepts rather than to their rejection.

The final group of critics was concerned about the inappropriate or inadequate application of CPM instruments by corporate managers. This group warned that managers might be tempted to manipulate the product-market boundaries and the input parameters in order to give their businesses the appearance of a more favorable position, thus increasing the likelihood of receiving funds, managerial attention, and respect. 12 In addition, there may be the risk of unintended misapplication when managers misinterpret the results of a portfolio analysis or adhere too rigidly to generic academic approaches.


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strategies without taking business specifics into account.\textsuperscript{13} These are risks that must be taken seriously—as with any strategic-planning instrument—but that can be managed carefully to preserve the inherent value of CPM.

More Recent Developments

Since their widespread introduction in the 1990s, value management metrics, such as the current return on capital of a business and its anticipated value creation, have also been included as instruments for analyzing and managing the corporate portfolio.\textsuperscript{14} Another important extension, as noted earlier, relates to the question of the best ownership of a business and the impact of corporate resources and capabilities. The theoretical foundation of parenting advantage was introduced in the seminal book \textit{Corporate-Level Strategy}.\textsuperscript{15} The parenting advantage concept was quickly picked up by many standard textbooks on strategic management and became an integral part of the curriculum at most business schools.

Another enhancement focuses on the incorporation of risk measurement into corporate portfolio management. Three basic approaches were developed that differ with regard to the organizational level and risk metric.\textsuperscript{16} The \textit{business strategy} approach measures risk at the business level. According to this concept, risk should be analyzed by identifying all factors that will influence the future costs and revenues of a business. These risk factors are then translated into a specific risk profile for each SBU on the basis of a Monte Carlo simulation.\textsuperscript{17} The \textit{portfolio strategy} approach measures risk at the corporate level and focuses on the overall ability to sustain long-term growth and a sufficient cash profile within the corporate portfolio.\textsuperscript{18} Finally, the risk-return approach—adapted from modern financial portfolio theory—analyzes risk at the capital market level by assessing the systematic risk of a business or portfolio and comparing it to the expected return.\textsuperscript{19} All three approaches to incorporating risk into portfolio management provide complementary perspectives and beneficial insights into the risk profile of the corporate portfolio—and all, as a consequence, can be applied simultaneously.

The Current Practice of Corporate Portfolio Management

In his \textit{Harvard Business Review} article on the practice of portfolio planning as it existed in 1979, Haspeslagh concluded that “in contrast to previous generations of planning approaches, portfolio planning is here to stay and represents an important improvement in management practice.”\textsuperscript{20} On the basis of our recent survey, we can confirm that corporate portfolio management is still in broad use for corporate-level decision-making. Two-thirds of the companies in our survey employ CPM regularly for strategy development and planning or as a major part of their ongoing management processes (see Figure 1). Another 28% of participants in our survey apply CPM at

\textsuperscript{13} See, for example, Seeger (1984), cited earlier.


\textsuperscript{20} Haspeslagh (1982, p. 71), cited earlier.
least in specific situations. This leaves only 5% of respondents who report that they do not use CPM at all.

In 1979, companies that applied portfolio planning techniques managed 30 strategic business units, on average.21 In our current survey, we found a median of nine SBUs among our survey participants, with only a quarter of companies managing more than 15 SBUs. This may reflect ongoing pressure on many companies to focus on the core businesses in the portfolio and divest non-core activities.22 However, the challenge of how best to segment the business portfolio is as vital as ever, particularly in today’s environment of deconstructed value chains and faster-changing business models. Today’s companies predominantly segment their portfolio on the basis of product line (69% of respondents) rather than organizational entity (38%), geographic entity (31%), or customer group (22%).

Performance Evaluation Criteria
The vast majority of companies that participated in our survey (85%) have established a specific framework for corporate portfolio management and analyze their portfolio—regularly or at least occasionally—in an aggregated form. About half of the companies use a scoring model to integrate a broad set of information into a simple matrix representation of the portfolio. The other half uses a smaller number of well-specified criteria for SBU assessment that are not aggregated into an abstract score. In our follow-up interviews, we found that many companies with long-standing experience in corporate portfolio management belong to the second group.

We were surprised to learn that 18% of our survey respondents are still employing the original BCG growth-share matrix, with an additional 45% using it in a customized form. Similarly, 69% of companies are using some sort of industry attractiveness—business strength matrix, as originally developed by GE/McKinsey. The traditional criteria of market attractiveness and competitive position are still very much in focus—roughly nine out of ten companies quantify them in their portfolio analyses (see Figure 2). Market attractiveness is typically measured by the size, growth, and profitability of the market. For measuring competitive position, companies consider not only relative market share but also relative profitability and relative growth rates. In addition, 89% of companies consider value creation metrics to be relevant portfolio criteria, with 78% applying them in a quantitative way. These companies start by looking at the current returns of an individual business but also take into account expected returns on future investments and anticipated value creation.

Besides assessing the standalone strategic and financial attractiveness of their businesses, companies increasingly ask whether they are the best owners for their businesses and how they add to the value of those businesses. Almost all participating companies (92%) consider the question of parenting advantage to be a relevant criterion for managing the corporate portfolio. About a quarter of participants report that they derive parenting advantage mainly from corporate resources and capabilities. Another quarter

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consider synergies between the different business units to be the prime source of parenting advantage. And the remaining two-quarters report that both sources are important. Still, only a minority of companies (41%) try to quantify the impact of parenting advantage, citing a lack of adequate metrics for measuring synergies and value added by the corporate parent.

Despite the argument of finance theorists cited earlier, one oft-cited motive for holding and managing a portfolio of unrelated businesses is risk diversification. But while two-thirds of the respondents consider risk to be a relevant criterion for managing the corporate portfolio, only 18% claim to quantify the risk of their SBU’s. The challenge in measuring risk is that it is frequently counterintuitive and requires heavy analysis and financial modeling. Our interviews revealed that many advanced companies currently experiment with value-at-risk metrics borrowed from financial theory. However, few boards are willing to base their corporate decisions on such sophisticated black-box models. More successful approaches involve engaging the board in a discussion of the key strategic risk factors and finding pragmatic ways to combine a risk perspective with the market, value, and parenting perspectives on the corporate portfolio.23

Holistic Portfolio Evaluation and Parenting Advantage

For valuation purposes, SBU’s are often regarded as stand-alone entities, and interdependencies are neglected to reduce complexity. However, this simplifying assumption does not hold for most multi-business companies, perhaps with the exception of private-equity portfolios and some diversified conglomerates with strictly unrelated businesses. In general, most multi-business firms claim to create significant value from exploiting economies of scope between the businesses in their portfolio. Academic research on the diversification-performance link confirms that growth into related businesses is the most promising mode of diversification.24

As a result, corporate portfolio management should take a holistic perspective on how things add up and why the total is more than the sum of its parts. This perspective incorporates synergies between the business units, the overall risk profile of the portfolio, and portfolio balance.

Nonetheless, we found that only 60% of companies systematically account for synergies between the SBU’s when managing their corporate portfolio. Even worse, only a quarter of companies try to quantify those synergies. And while two-thirds of the participating companies explicitly take into account the effect of corporate-level decisions on the balance of their portfolio, their top goal is still to manage the balance of cash generation and cash consumption (see Figure 3). This was the origin of the BCG growth-share matrix—and although it has arguably regained relevance in the wake of the recent financial crisis and limited access to external financing, it should not be the primary driver of portfolio decisions. In addition, more than two-thirds of the respondents also use their corporate portfolio to balance growth and profitability, risk and return, and short- and long-term value creation—consider-

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eral operations that modern finance would say are mostly best left to investors.

The notion of synergies falls under the broader concept of the role and parenting strategy of the corporate center. The parenting advantage concept identifies four basic sources of corporate value creation:25

1. Standalone influence: the corporate parent influences the strategies and performance of the businesses through its distinctive capabilities and resources.

2. Linkage influence: the corporate parent seeks to create value by enhancing and fostering existing linkages (synergies) among the businesses it owns.

3. Central functions and services: the corporate parent establishes central functions and services that create value by providing functional leadership and cost-efficient services for the businesses.

4. Corporate development: the corporate parent can create value by altering the composition of the portfolio of businesses.

According to our survey participants, direct influence over the SBUs on the basis of specific expertise (#1) and active corporate portfolio development (#4) are clearly considered to be the most important drivers of corporate value added, with three-quarters of respondents claiming these levers for their corporate center. But the other two levers—fostering synergies between SBUs and realizing advantage through centralization of functions and services—are considered relevant by about half of the companies.

Corporate Portfolio Management Processes

Against this background, most companies in our survey have established corporate portfolio management as a regular process. Only a quarter of participants tend to use portfolio analyses as an ad hoc instrument for specific occasions (see Figure 4). At the same time, portfolio management is typically a process that is strongly driven from the top down, with only one out of seven firms describing their portfolio process as mainly bottom-up. Companies are fairly evenly divided between those with a formal and standardized portfolio approach and those that prefer a less rigid process.

Consistent with the strong top-down character of corporate portfolio management in most companies, CPM is high on the agenda of most executive boards (see Figure 5). Board members are strongly involved in setting the topics of focus, challenging and interpreting the results of portfolio analyses, deriving conclusions, and initiating and making portfolio decisions. Corporate-level staff are involved throughout the entire CPM process in most companies. They are usually also responsible for performing and interpreting portfolio analyses. In contrast, division and SBU staff are involved in less than half of the companies and mainly contribute data, conduct analyses, or challenge results.

In the majority of participating companies, CPM is fully integrated into strategy development and long-term strategic planning (see Figure 6). For these companies, portfolio strategy is an integral element of corporate strategy. On the other hand, less than a third of respondents integrate CPM into short-

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Figure 5  CPM Process Participants

<table>
<thead>
<tr>
<th>Step</th>
<th>Supervisory Board</th>
<th>Executive Board</th>
<th>Corporate Center Staff</th>
<th>Division/Segment</th>
<th>Business Unit</th>
<th>Functional Experts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set portfolio focus topics</td>
<td>30%</td>
<td>79%</td>
<td>71%</td>
<td>28%</td>
<td>21%</td>
<td>14%</td>
</tr>
<tr>
<td>Perform portfolio analyses</td>
<td>4%</td>
<td>31%</td>
<td>87%</td>
<td>47%</td>
<td>40%</td>
<td>30%</td>
</tr>
<tr>
<td>Challenge and interpret results</td>
<td>20%</td>
<td>71%</td>
<td>77%</td>
<td>42%</td>
<td>29%</td>
<td>21%</td>
</tr>
<tr>
<td>Initiate decision process</td>
<td>13%</td>
<td>74%</td>
<td>62%</td>
<td>32%</td>
<td>21%</td>
<td>9%</td>
</tr>
<tr>
<td>Make portfolio decision</td>
<td>48%</td>
<td>94%</td>
<td>20%</td>
<td>20%</td>
<td>8%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Sample size = 141 participants

Figure 6  Integration of CPM into Other Corporate Processes

<table>
<thead>
<tr>
<th>Process</th>
<th>Not integrated</th>
<th>CPM receives input or provides output</th>
<th>Fully integrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy development</td>
<td>61%</td>
<td>36%</td>
<td>4%</td>
</tr>
<tr>
<td>Annual strategy planning</td>
<td>58%</td>
<td>37%</td>
<td>6%</td>
</tr>
<tr>
<td>Annual short-term planning</td>
<td>27%</td>
<td>43%</td>
<td>30%</td>
</tr>
<tr>
<td>Investment budgeting</td>
<td>29%</td>
<td>57%</td>
<td>14%</td>
</tr>
<tr>
<td>Target setting for management</td>
<td>29%</td>
<td>38%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Sample size = 140 participants

term planning and financial target-setting. More disquieting is that only 29% of participating companies integrate portfolio management into investment budgeting. This is a surprisingly low percentage, given that portfolio planning techniques were primarily developed as instruments to improve the efficient allocation of scarce resources. We assume that most companies establish a weak link between portfolio management and investment budgeting by using portfolio strategy as one input for the subsequent resource allocation discussion (only 14% of companies have no link between the two corporate processes). At least, we note some progress compared with Haspeslagh, who reported finding that “in practice … companies do not alter formal administrative systems in accordance with the strategic missions of SBU’s.”

Applications of CPM

Portfolio planning techniques were originally devised to support the modern corporation in managing a growing number of businesses with increasingly differentiated strategic requirements and success factors by providing (1) corporate-level visibility with regard to the strategic and financial performance of the businesses, (2) selectivity in resource allocation, and (3) differentiation in corporate center attention among businesses. We asked our survey participants about the extent to which these original objectives are still relevant today. Interestingly, we found that creating transparency about and insight into the performance of the strategic business units is still the most important function of CPM (see Figure 7). Four out of five participants report that identifying the need for action and setting strategic targets for the SBUs is a key application for corporate portfolio management in their companies.

The second major area of application is corporate development, which includes evaluating new growth opportunities, uncovering the need for acquisitions, and identifying divestiture candidates. While these applications are not the focus of traditional portfolio approaches, the last three decades of M&A activity and portfolio transformations fostered the role of CPM as a corporate development instrument. In fact, many senior executives refer to these types of transaction-related applications when they talk about corporate portfolio management. Some three-quarters of our survey respondents identified these applications as relevant.

In contrast, we found a smaller role for CPM as a steering instrument for the strategic business units. Resource allocation and financial target-setting are somewhat less relevant applications of CPM for today’s companies. Most notably, allocating management resources and assigning specific strategic missions or roles to the SBUs are at the bottom of our ranking, with less than half of the respondents considering these to be relevant applications.

Still, the ultimate test for the usefulness of a CPM instrument is the extent to which executives rely on it for major corporate-level decisions. The results of our survey are somewhat sobering: despite the fact that nearly three-quarters of participants claim to use CPM to identify divestiture candidates, only 40% report that their most recent divestiture decision was triggered by portfolio analysis, and 30% admit that the effects on the overall portfolio were not even considered (see Figure 8). The situation is even worse for acquisitions and major investment decisions, which were motivated by portfolio considerations at only 23% and 16% of the companies, respectively. Obviously, there is a troubling gap between the effort that many companies put into corporate portfolio management and its impact on actual corporate-level decisions. As we will discuss below, this gap is also reflected in a low level of satisfaction with existing portfolio approaches in many companies.

What Drives the Specific CPM Approach of a Company?

Up to this point, we have looked at the broad global sample of companies to understand their current application of corporate portfolio management. We have identified some striking similarities and trends, but also some noticeable
differences, in respective CPM approaches. What are the underlying reasons for these differences? In particular, do industry, geography, ownership structure, and the degree of diversification play a role in explaining different CPM approaches?

**Differences by Industry.** CPM as a corporate management process is of highest relevance for private-equity firms (for which portfolio management is a key element of the business model), technology and media companies, and resources and materials companies. Executives from these industries also report the highest level of satisfaction with their current CPM approaches. At the other end of the spectrum are the health care and financial services industries, with less than a third of companies considering CPM to be a major part of their management process. Both of these industries are still dominated by comparatively specialized and focused companies that manage portfolios of financial assets or products and projects, rather than portfolios of strategic business units. However, our interviews revealed that successful conglomerates in these industries placed CPM higher on the corporate agenda.

There are also differences among industries in their dominant objective for managing the corporate portfolio. Private-equity firms are again at one extreme: in accordance with their business model, they manage the portfolio mainly for risk diversification—and deliberately ignore potential synergies between businesses. Utilities are another example of an industry that focuses on risk management in CPM. Utility companies are also heavy users of risk-return frameworks and regularly quantify risk at the business and portfolio level. In contrast, most companies from the industrial goods and the resources and materials sectors pursue different objectives and focus on synergies, while largely neglecting risk considerations. Financial services firms tend to emphasize both synergies and risk: they try to exploit the benefits of an integrated business model while at the same time using their portfolio to diversify strategic risks.

**Regional Differences.** We were surprised to find no significant differences in the CPM approaches of companies from North America and Western Europe. They use very similar instruments, have established similar processes, and focus on similar applications. However, companies in Asia tend to assign much higher relevance to corporate portfolio management: almost two-thirds of Asian respondents consider CPM to be a major part of their management process, compared with 35% for Western companies. And 90% of Asian companies indicate synergy management as a high strategic priority, as compared to only 63% of Western European companies and 53% of North American companies. Consistent with this finding, companies in Asia use corporate portfolio management predominantly as an instrument for steering their SBUs (such as setting strategic and financial targets), whereas companies in Europe and the United States focus on the role of CPM in corporate development (such as identifying divestiture and acquisition candidates). These findings are consistent with the relative maturity of the respective regional financial markets and the resulting requirements for managing a multi-business company.

**Ownership Model and the Degree of Diversification.** Ownership and governance characteristics can also explain differences in CPM approaches. For example, private and state-owned companies assign a much higher relevance to corporate portfolio management than does the average public firm. Private companies also put more emphasis on managing synergies and risks, while state-owned companies care less
about the risk of their portfolios. Both types of companies regard CPM as less important for corporate development than their public peers. This finding further highlights the influence of financial markets on the way companies manage their corporate portfolios.

Finally, the degree and type of diversification of a company have some influence on its specific CPM approach. We have distinguished between “focused” companies (with more than 70% of revenues from one business), “related diversified” companies (no single business contributing more than 70% to total revenues and most businesses being related to each other), and “unrelated diversified” companies (no single business contributing more than 70% to total revenues and no major relationship between the businesses). While corporate portfolio management has an astonishingly high relevance for the companies classified as focused, we also observe significantly more integrated and stricter CPM processes at the unrelated diversified companies. Not surprisingly, these firms also have a stronger emphasis on applying CPM for corporate development, whereas the related diversified companies have a stronger focus on risk and synergy management.

**Satisfaction, Barriers, and Limitations**

More than half (56%) of the participants in our survey report that they are not satisfied with their company’s current approach to corporate portfolio management. In fact, only two out of 229 respondents indicated that they are fully satisfied with their existing approach.

The main reasons for this dissatisfaction are the inefficiency of the process (25% of respondents) and the weak acceptance and support by the business units (21%). (As noted earlier, division and business unit staff are directly involved in the CPM process in less than half of the companies, and mainly contribute data or conduct analyses.) On the other hand, current CPM approaches receive rather high marks for improving the quality of strategic decisions and for acceptance and support by the executive board.

What distinguishes companies that are satisfied with their current approach to CPM from those that are dissatisfied? Both satisfied and dissatisfied companies use largely the same criteria and metrics for assessing the individual businesses in their portfolios. However, satisfied companies have a much more holistic approach to CPM (see Figure 9). They more strongly consider—and even quantify—the risk profile of their portfolio, the synergies between businesses, and the overall balance of the portfolio.

Satisfied companies also have a significantly more rigorous approach to corporate portfolio management. For example, 73% of satisfied companies regularly employ a specific framework for analyzing their portfolio, compared with only 18% of dissatisfied companies. Satisfied CPM users also have more standardized, regular, and formalized processes for managing their portfolio. Moreover, satisfied CPM users more closely link portfolio management with other corporate processes. For example, 80% of satisfied companies fully integrate CPM into their strategy development and planning processes, while only 25% of their dissatisfied peers do so.

As a consequence of their more holistic and rigorous approaches to corporate portfolio management, satisfied companies are also more effective users of CPM. They rely much more heavily on their portfolio instruments for significant corporate-level decisions, such as acquisitions, divestitures, or major investments. An interesting area for future research is the impact of different CPM approaches on the capital market performance of multi-business firms.

**Figure 9 Satisfied CPM Users Employ a More Holistic Approach**

Average Scores of Satisfied vs. Dissatisfied CPM Users (5 = Fully Agree, 1 = Fully Disagree)

<table>
<thead>
<tr>
<th>Component</th>
<th>Satisfied</th>
<th>Dissatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consideration</td>
<td>4.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Risk</td>
<td>3.8</td>
<td>3.4</td>
</tr>
<tr>
<td>Synergies</td>
<td>3.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Balance</td>
<td>4.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Sample size = 148 participants
Starting Points for Improving Existing CPM Approaches

Given the generally low levels of satisfaction, we asked our survey participants how existing approaches to corporate portfolio management could be improved, especially with regard to current barriers to broader use and the limitations of existing instruments. The reported barriers are mainly related to implementation and application: decision makers need a better understanding of existing portfolio instruments, and the results from portfolio analyses should be more consistently translated into strategic decisions and actions (see Figure 10). Haspeslagh’s conclusion is thus still valid: “If a company looks on portfolio planning as merely an analytic planning tool, it will not realize its benefits.” At the same time, the vast majority of our survey respondents do not believe that CPM has lost its relevance because of either a decrease in the number of diversified companies or the greater efficiency of capital markets.

When asked for the key limitations of existing portfolio instruments, our survey participants most frequently mentioned the application to dynamic environments and to the assessment of new business opportunities (see Figure 11). Again, we note that this gap has existed for more than 30 years: as Haspeslagh says, “Portfolio planning seems unable to successfully address the issue of new business generation.”

More than half of the respondents also reported a need to further develop CPM instruments with respect to the consideration of synergies, risk, and parenting advantage. These perspectives have not been the focus of traditional portfolio concepts, and while their relevance is now broadly acknowledged (as verified in our survey), their usability for widespread deployment in management practice is still inadequate. More generally, CPM focuses primarily on analyzing individual strategic business units rather than the overall health, quality, and balance of the portfolio.

These findings should not only promote the development of improved CPM approaches and instruments by corporate strategy departments and strategy consulting firms, they should also have an impact on the academic research agenda for corporate portfolio management.

Summary and Conclusions

Forty years after the introduction of the BCG growth-share matrix, corporate portfolio management continues to be a topic of high relevance—and substantial challenge—for corporate leaders. Our global survey on the current practice of corporate portfolio management shows that managing and developing the corporate portfolio is still regarded as a top strategic priority by most major firms worldwide. However, while acknowledging its importance, the majority of companies are not satisfied with their current CPM approaches and processes—and there is an alarming gap between the effort that many companies put into corporate portfolio management and its impact on corporate-level decisions.

The right approach for a company depends on—among other things—the complexity of its portfolio, the desired role of the corporate center, the company’s prior experience with CPM techniques, and its current strategic challenges.

Nonetheless, we have identified some best practices that can help companies make corporate portfolio management a more effective instrument for corporate-level decision-making. These best practices also address many of the observed shortcomings and academic criticism of traditional CPM approaches.

- Analyze the businesses in your corporate portfolio from all relevant perspectives, including the market-based view (market attractiveness and competitive position), the value-based view (current and anticipated financial returns), and the resource-based view (parenting advantage).
- Rather than integrating the different perspectives in a single matrix, keep the various perspectives distinct and let the integration happen in the strategy discussion. In most cases, the process is more important than the final matrix representation. CPM can help you ask the right questions, but it will not give you definitive answers. It supports strategic thinking but should not replace it.
- Do not focus your analysis solely on the individual strategic business units. Portfolio management is about creating a total that is more than the sum of its parts, which can only be assessed at the portfolio level, not at the level of individual SBUs.
- Think like your shareholders and measure the quality of the portfolio against your corporate goals. What is the short-term versus long-term value creation profile of the portfolio? What is its balance along critical dimensions such as risk versus return, cash generation versus cash use, and growth versus profitability?

- Do not apply CPM as a deterministic exercise but rather as a means of facilitating thinking in scenarios and discussing portfolio strategy in terms of risk and uncertainty in the context of alternative portfolio development options.
- Establish corporate portfolio management as a regular process that is clearly driven top-down by the center but also ensures strong SBU involvement both in generating the data and in drawing conclusions. Successful CPM processes tend to be rather formal and standardized, without becoming overly complex and inefficient.
- Apply CPM not only as a corporate development instrument (such as for identifying divestiture and acquisition candidates) but also as an instrument for steering the SBUs—setting strategic as well as financial targets and allocating resources such as capital, human resources, and management attention.
- Treat generic portfolio roles with respect: they are a double-edged sword. Many boards love to classify their businesses into simple roles—such as explore, attack, grow, defend, or harvest—with role-specific strategic goals and financial performance targets. This can be an effective approach for reducing the complexity of a broad portfolio. But beware of oversimplification.
- Consider corporate portfolio management as a mindset,
not a tool. It should be not a one-time or once-a-year exercise but an ongoing process—and ultimately a way of thinking—that is fully integrated into other corporate processes.

We have also identified some areas where practitioners could benefit from further academic support. In particular, the following open questions warrant future academic research:

• What is the performance impact of different CPM approaches? Are there certain practices that lead to consistently superior performance?

• What should determine a company’s specific CPM approach? To what extent should it be influenced by the relative maturity of regional capital markets and by the company’s ownership structure (private, public, state-owned)?

• Which parenting approaches are observed in practice—how can they be classified and what is their effect on corporate value?

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