

# Designing Top Management Decision-Making Pattern in Parent Companies

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## Abstract

Today, with the increasing scope of the business world and the constant changes in business environments, moving to parent company structures is becoming increasingly important, whether access to a variety of high-quality facilities such as goods, services and ... in incorporation is one of the basic needs of both real and legal clients in these situations. In this area, companies have had to increase their capabilities in all aspects of the competitive environment for survival and use each other's capabilities and form holding structures. In this research, with the purpose of increasing the performance of parent companies, we provide high-level decision-making model at two levels to help such organizations achieve their purposes. In order to prepare the research model, we used the Grounded Theory method, the data needed to design and develop the model were gathered through interviews with a number of leading experts and CEOs of parent companies and by analyzing them, the desired model was obtained. As a means to evaluate the model derived from qualitative data, in a separate stage, questionnaires were filled out by the CEOs of parent companies, indicating the validity of the results and the relationships arising from the model.

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## 1. Introduction

Nowadays, corporate-level management has its requirements and conditions. In this regard, we need to adopt a holistic approach that encompasses most of the existing issues and situations. Today, in the age of communication, the existential nature of organizations has changed, and the existence of organizations is threatened more than ever. Organizations that embrace change by adopting a forward-looking and future-oriented approach will be more successful (Kordnaiej, 2017, p.). In the meantime, like other organizations and even more so, parent companies also need an appropriate management structure and system to manage their subsidiaries, due to the widespread influence of these

companies on their business environments. According to Lynch (2006, p. 808), a parent company refers to organizations with very different products and casual relationships. A central company has a variety of jobs and operates in each of the other companies as a venture capital firm. Simply put, a parent company refers to an investment firm that has invested in numerous businesses (Johnson, Scholes, & Whittington, 2006, p. 402).

In his book *Practicing Strategy*, Hrebiniak (2005, p. 37) lists parent company strategies at three levels. A) corporate level (portfolio management, diversification including vertical integration, allocation of resource to businesses), B) business level (products and services offered, gaining

competitive advantage in an industry, how to differentiate a company in a given market, sector or unit), and C) strategy within businesses (specialty programs). Table 2 shows the main components of the corporate-level strategy (strategy at the company level).

**Table 1.** Key components of corporate-level strategy, Hrebiniak (2005)

Level	Examples of Issues or Tasks
Corporate Strategy	<ul style="list-style-type: none"> <li>• Portfolio management</li> <li>• Diversifications, including vertical integration</li> <li>• Resource allocations across businesses</li> </ul>
Business, Divisional, or SBU Strategy	<ul style="list-style-type: none"> <li>• Which products and services to offer</li> <li>• How to compete</li> <li>• Achieving competitive advantage in an industry</li> <li>• How to differentiate the firm in a given market</li> </ul>
Strategy within Businesses	<ul style="list-style-type: none"> <li>• Functional plans</li> </ul>

According to Hrebiniak, effective and continuous portfolio management is seen as a critical principle in parent companies. Furthermore, according to Khodadad Hosseini and Azizi (2008, p. 145), the organization-level strategy seeks to coordinate the strategies of different units so that the organization can succeed as a family. The organization-level(organization-wide) strategy deals with three key stages: the overall organizational direction, the industries and markets in which the organization is competing, and the way in which management coordinates activities. To clarify how managers decide on which business, market or regional geography they should invest in, which areas to avoid, where to sell or operate their business, and so on, there

are three logics that guide such decisions: "business logic," "added-value logic" and "capital markets logic," each of which are important for making the right decision for the portfolio (Campbell et al., 2014, p. 8).

Currently, there are many parent companies in Iran whose number is increasing for reasons such as the downsizing of the executive body of the government and privatization (Article 44 of the Constitution), according to information from the Industrial Management Organization's Website. This claim is borne out by the statistics provided by the Industrial Management Organization (Institute) in 2013, according to which 67% of the top 100 ranked companies were parent companies. As a result, these companies need a decision-making pattern and strategy model to succeed. Studies have shown that little research has been done on the design of decision-making patterns in parent companies, and the design of such a pattern is necessary for domestic parent companies. Therefore, the researcher asked the main research question: What is the portfolio management decision-making pattern in parent companies?

## 2. New Research

Now, let us look at a number of new researches done in recent years on parent companies, most of which are focused on topics such as:

In their research, Khalil Nejad, Zare, and Daneshvar (2016) studied the relationship between parent companies' supervisory strategy and the effectiveness of subsidiaries. They also determine whether the organizational maturity of the subsidiaries strengthens or weakens this relationship. Amini and Khani (2017) have addressed the challenges of value creation or destruction in parent companies and have shown that parent companies can survive in the long run if they can prove that their value creation is greater than their value destruction. Aghazadeh(2017) reviewed and analyzed the

strategic management system and the 5-year plan of a parent company based on the gap analysis model so that it could identify the significant damage of that company. In their research, Golru, Shakeri, and Naderi (2017) examined the productivity improvement of multidimensional parent companies by systematically evaluating performance using control indicators. Valipour and Edalatian (2018) reviewed and analyzed the strategic management of parent companies with respect to the structure of these types of organizations and the way their strategic management functions based on different strategies.

In their research, Kruehler, Pidun, & Rubner (2012) examined the effect of parenting strategies on subsidiaries. This study examined the value creation or destruction in a parent company based on a triangular framework. In their studies, Rabbiosi, & Santangelo (2013) examined the transfer of organizational knowledge from subsidiaries to parent companies in reverse. In his research, Calandro (2014) presented new insights into strategic management in a parent company and introduced current conditions as the source of the effect and the creation of insights. In their study, Wang, Zhang, & Yang (2014) presented a "three-stage" qualitative and quantitative SWOT model, in which they attempted to reduce the gap between strategic analysis and strategy formulation Gurkov. Gurkov (2015) provided a summary of existing parenting styles and some of the forgotten factors of a new type of parenting style by combining "adding value to the parent company" and "extracting value from the parent company." In their research, Arast, Khaleghi, and Nouri (2016) studied the technology strategy and its relationship with the overall strategy in multi-business firms in diverse workgroups and showed the relationship between this technology strategy and corporate strategy. In their research, Mazzei, & Noble (2017) examined the applications of "Big Data" in multi-business firms, and found that

these companies could use this type of information as "tools," "industry," and "strategy."

### 3. Methodology

The present study is philosophically interpretive because the researcher designs the top-management decision-making pattern at high levels of parent companies based on cognition. This study aims to develop knowledge about this concept. Moreover, it is a priori in terms of model design, where it has been attempted to design a pattern from the expert knowledge in the field of top-level management in parent companies. Based on the approach used by the researcher, i.e., obtaining information from experts, this study has used the grounded theory qualitative approach to build an understanding of the top-level management decision-making pattern in parent companies. Then, the model is validated based on the expert opinion using the statistical approach. The data were collected through interviews in the first phase and questionnaires in the second phase. The data were categorized into three stages of coding from interview sentences to open-source code and then to concepts and categories. Furthermore, the relationships were plotted between the categories based on the researcher's findings, and finally, the model was designed. Then, a questionnaire was distributed among the parent companies' managers to confirm the statistical model of the research, and the designed model was validated using statistical analysis.

In the case study method, there are no specific or fixed numbers for individuals; however, researchers recommend at least 4 or 5 cases (Creswell & Clark, 2007, 17). Interviews continued until the theoretical data saturation stage, meaning that the researcher continued the interviews until a new concept or code was obtained from the interview. Moreover, subjects were selected based on the snowball technique. Finally, in the qualitative section, 18 interviews were conducted by the researchers, with a sample

size of 40 based on the maximum possible experts. The validity and reliability of the collected data and interviews were analyzed using the partial least squares (PLS) technique. Furthermore, the validity and reliability of the distributed questionnaires were confirmed by expert opinion and Cronbach's alpha coefficient of 0.82.

## 4. Findings

### 4.1. Results of qualitative analysis

*First sub-question:* How does decision-making occur at the macro-level of parent companies and the choice of scope and overall changes in parent companies?

**Table 2.** Macro-level decision-making structure of Parent Companies

Decisions about Strategy Design at the Business Level (Portfolio Level)	Entering New areas	Investing in New Businesses
		Increase Capital in Subsidiaries
		Buying or Selling Businesses and Exiting Capital
	Diversifying the Subsidiaries	Breakdown of Subsidiary Activities
		Merging Subsidiaries

Based on the interviews and the results obtained in this section, it was found that macro-level decision-making has two main dimensions, "entering new areas" and "diversifying the Subsidiaries," each dimension representing a set of macro activities at this level, as shown in Table 2.

*Second sub-question:* How does decision-making occur at the micro-level of parent companies and the choice of operating areas at the current level

and management decisions in the parent companies?

**Table 3.** Secondary level decision-making structure of parent companies

Decisions about Parenting Strategies (Managerial Strategies)	Subsidiary Activity Segmentation	Decision Making in Functional Sector
	Guiding Subsidiaries Division	Subsidiaries Board Selection
		Guiding Managers
		Co-operation and Coordination among Subsidiaries
	Decision Focus	Decision Control
		Focus on Decision Making
		Determining the Scope of Decision Making
	Subsidiary Structuring	Shaping Subsidiaries Structure
		Similar Subsidiaries
		Complementary Subsidiaries
	Managing the Relationship between and with the Subsidiaries	Subsidiaries Relationships
		Interacting with Subsidiaries

Based on the interviews, the results in this section show that the decision-making at the secondary level of parent companies involves five primary sections, "subsidiary activity segmentation," "guiding subsidiaries division," "decision focus," "subsidiary structuring" and "managing the relationship between and with subsidiaries," as shown in Table 3. Having said that, each of these five essential parts has its subsidiaries, as shown in Table 3.

*Third sub-question:* What are the factors influencing the formation of decision-making conditions at the two levels of parent companies?

In addition, it was found that there are some factors influencing decision-making in parent companies, which form a kind of strategic decision-making philosophy in such companies. These factors are shown in Table 4 in two main categories, "global factors" and "indigenous requirements." Global factors are internationally essential issues based on research; however, indigenous requirements are specific to Iran.

**Table 4.** Conditions of decision-making in parent companies

Conditions for Decision Making	Global Factors	Business Logic
		Added Value Logic
		Capital Market Logic
	Indigenous Requirements	The Role and Requirements of Government and public institutions
		Perceived Need for Entrepreneurship
		External Organizational Dependencies

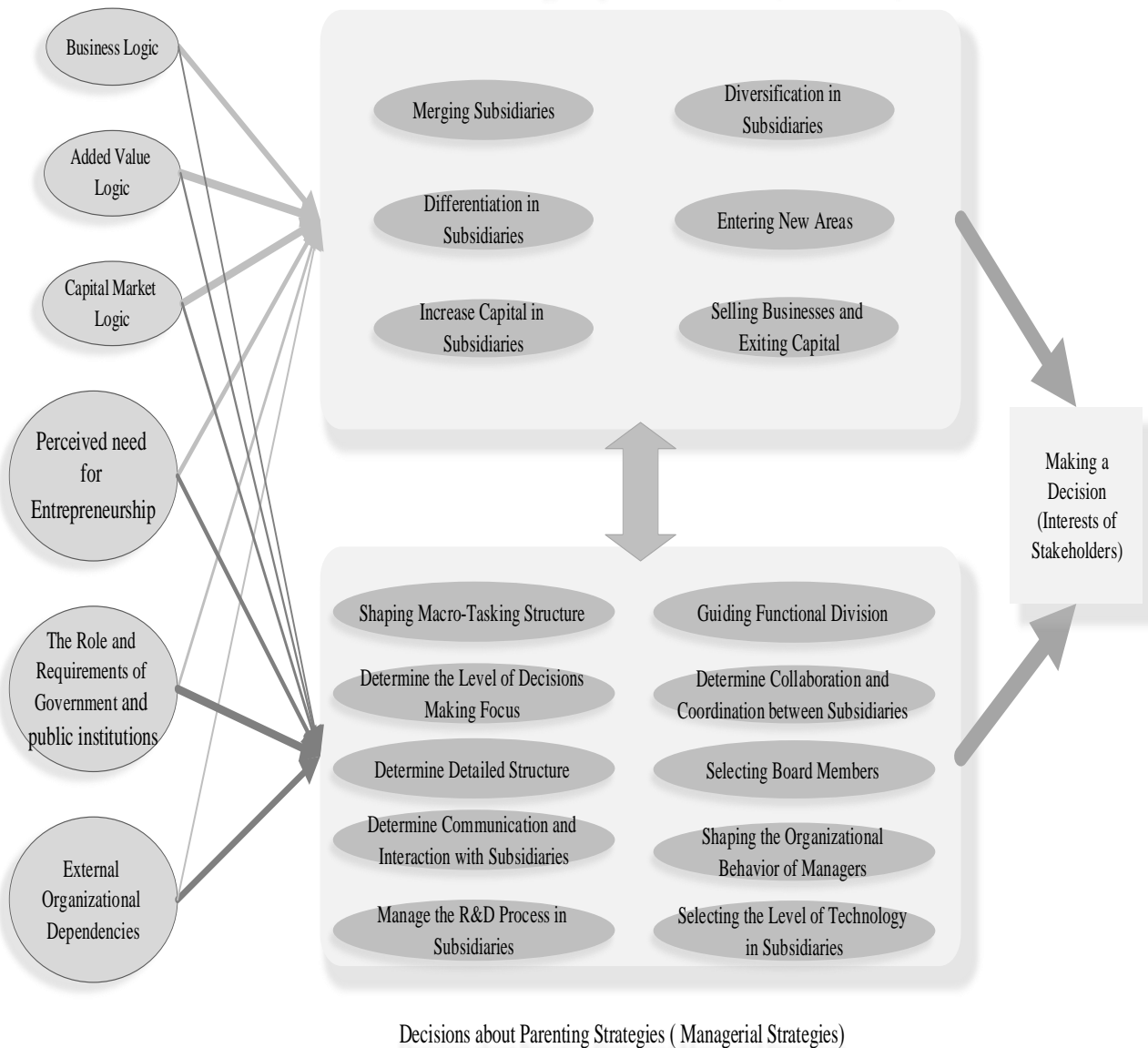
Thus, based on the results of the interviews and qualitative analysis during the three coding stages, it became clear what the main categories and sub-categories were. Then, the relationships between the identified categories were designed based on these components. Figure 1 illustrates these relationships and the portfolio management decision-making model of parent companies.



## Top Management Decision-Making Pattern in Parent Companies

Factors Influencing Decision Making

Decisions about Strategy Design at the Business Level( Portfolio Level)



**Figure 1.** The pattern of the relationship between the categories extracted from the interview in the final stage of selective coding

According to Figure 1, the two main decision-making categories are at the center of the model at the two primary and secondary levels, which are influenced by the six components of the decision-making conditions of parent companies.

#### 4.2. Results of quantitative analysis

After designing the proposed pattern, it was evaluated and validated using expert opinions. A

questionnaire was designed based on the opinions of academics and the suggested model, in which managers of parent companies were asked to comment on the questions raised. After collecting the questionnaires, the normality of the data distribution was examined.

At first, the Kolmogorov-Smirnov test was used to check the normality of the data.

**Table 5.** Kolmogorov-Smirnov statistical test

Dimension	N	Normal Distributions Parameters		Kolmogorov –Smirnov Z	Sig.	Result
		Mean	Std. Deviation			
Decisions about Strategy Design at the Business Level (Portfolio Level)	40	3.2738	0.65169	0.614	0.845	Normal Distributed Data
Decisions about Parenting Strategies (Managerial Strategies)	40	3.4667	0.57419	0.895	0.399	Normal Distributed Data
Triple Logics on Business (portfolio) Levels	40	3.5833	0.56312	0.837	0.486	Normal Distributed Data
Triple Logics on Parenting (Managerial) Levels	40	3.2619	0.60558	0.521	0.949	Normal Distributed Data
Indigenous Requirement on Business (portfolio) Levels	40	3.5	1.03962	0.798	0.547	Normal Distributed Data
Indigenous Requirement s Parenting (Managerial) Levels	40	3.25	0.90034	0.776	0.584	Normal Distributed Data

According to the Kolmogorov-Smirnov test statistic value, the data obtained for the research questionnaire have a normal distribution. That is, all the data collected through the questionnaire have a normal distribution in terms of data distribution. Parametric methods (e.g., t-test) were then used to assess the status of each of the dimensions and components of the study.

In terms of designing strategies in business, the status of this dimension and its components are presented in Table 6 using the t-test. Based on the results, it is found that the dimension of designing strategies in business is significantly more than the average level of 0.77 at a 95% significance level. Accordingly, this dimension has been confirmed by experts in the final research model. Moreover, the results show that all the components extracted from the interviews were

also significant in terms of this dimension at a 95% confidence level.

**Table 6.** Results of the initial level decision-making dimension and its components

		t	df.	Si g.	Mean Difference	Results of H0
Dimension	Business Level Strategy (Portfolio Level)	0.773	0.773	0.773	0.773	Dimension Confirming
Factors	Entering New Areas	1.75	1.75	1.75	1.75	Factor Confirming
	Diversification in Subsidiaries	1.25	1.25	1.25	1.25	Factor Confirming
	Differentiation in Subsidiaries	0.75	0.75	0.75	0.75	Factor Confirming
	Increase Capital in Subsidiaries	1.25	1.25	1.25	1.25	Factor Confirming
	Selling Businesses and Exiting Capital	1.583	1.583	1.583	1.583	Factor Confirming
	Merging Subsidiaries	1.333	1.333	1.333	1.333	Factor Confirming

The status of the parenting strategies and their components is presented in Table 7 using the t-

test. Based on the results, it is found that the dimension of management strategies is more than the average level of 0.967 at a 95% significance level. Accordingly, this dimension has been confirmed by experts in the final research model. Moreover, the results show that all the components extracted from the interviews were also significant in terms of this dimension at a 95% confidence level.

**Table 7.** Results of the management strategies dimension and its components

		t	df.	Si g.	Mean Difference	Results of H0
Dimension	Parenting Strategies (Managerial Strategies)	0.967	0.967	0.967	0.967	Dimension Confirming
Factors	Shaping Macro-Tasking Structure in Subsidiaries	0.833	0.833	0.833	0.833	Factor Confirming
	Guiding Functional Division through Specifying Policies, Rules, Regulations, ...	0.833	0.833	0.833	0.833	Factor Confirming
	Determine the Level of	1.167	1.167	1.167	1.167	Factor Confirming



		t	df.	Si g.	Mean Diffe rence	Result s of H0
	Decision s Making Focus inSubsid iaries					
	Determi neTitles, Posts and ... (Detailed Structure ) inSubsid iaries	0. 86 7	0. 86 7	0. 86 7	0.867	Factor Confi rming
	Determi ne how to Commun icate and Interact with Subsidia ries	1. 08 3	1. 08 3	1. 08 3	1.083	Factor Confi rming
	Selecting Board Member s in Subsidia ries	1. 75 0	1. 75 0	1. 75 0	1.750	Factor Confi rming
	Determi ne How Collabor ation and Coordina tion between Subsidia ries (in order to create	1. 50 0	1. 50 0	1. 50 0	1.500	Factor Confi rming

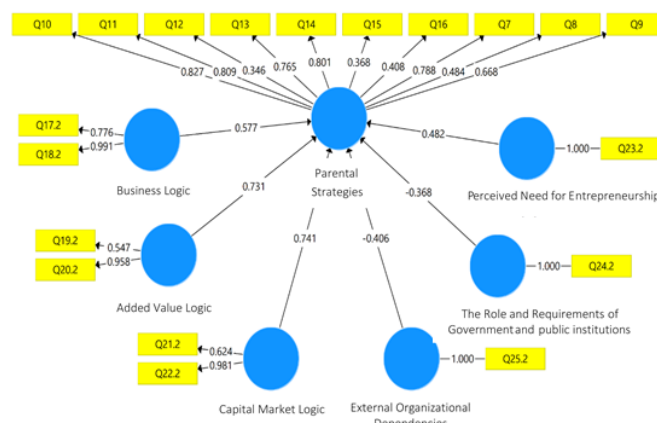
		t	df.	Si g.	Mean Diffe rence	Result s of H0
	synergy)					
	Shaping the Organiza tional Behavior of Manager s in Subsidia ries	0. 91 7	0. 91 7	0. 91 7	0.917	Factor Confi rming
	Selecting the Level of Technol ogy in Subsidia ries	0. 66 7	0. 66 7	0. 66 7	0.667	Factor Confi rming
	Manage the R&D Process and Determi ne its Focus in Subsidia ries	0. 75 0	0. 75 0	0. 75 0	0.750	Factor Confi rming

After confirming the two main components of the model, namely primary and secondary decisions at the center of the model, the relationships between the identified variables, known as triple logics, and the impact of indigenous requirements on these two central variables are examined. For this purpose, PLS and Smart-PLS techniques were used to investigate the relationships between variables.

Based on the results in Figure 2, it was found that the three logics influence the primary decisions of parent companies. It was also found that the

perceived need for entrepreneurship as well as external organizational dependencies have a positive impact on this level of decision-making; however, the role and requirements of government and public institutions have a negative impact on this level of decision-making. This means that increasing the role and requirements of government and public institutions reduces the quality of decision-making at the primary and fundamental level in parent companies.

In addition, based on the results in Figure 3, it was found that the three logics influence the secondary decisions in parent companies. It was also found that the perceived need for entrepreneurship had a positive effect on this level of decision-making. However, the external organizational dependencies, as well as the role and requirements of government and public institutions, had a negative impact on this level of decision-making. That is, the external organizational dependencies and the role and requirements of government and public institutions reduce the quality of secondary-level management and management decisions in parent companies.

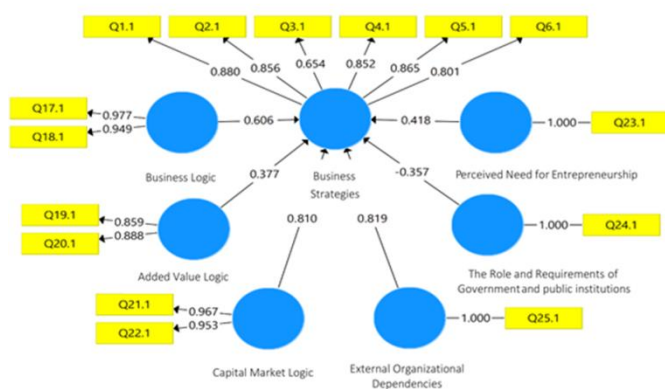


**Figure 3.** Investigation of significance levels of the relationships between variables influencing parenting strategies (secondary decisions in parent companies)

## 5. Discussion

According to the findings of this study, it was found that all three global logics, as well as the identified indigenous requirements, influence the two levels of decision-making. In addition, based on the results, the model was confirmed in the first stage of the research. The results of the research can be considered consistent with the findings of the study by Campbell et al. (2014). Campbell's view of decision-making styles and levels has influenced the way he explains the relationships between categories in selective coding; he endorses such an initial classification of decision-making levels in parent companies.

Research by KhalilNejad et al. (2017), Valipour and Etedalian (2017), Alengeh (2017), Pirayesh and Ghahramani (2018), Kruehler et al. (2012), Calandro (2014), and Gurkov (2015) on first-level issues of the parent organization decisions; however, none specifically sought to typify these decisions. Moreover, the research by Dastmalchi et al. (2011), Mirmohammadi and Izadkhah (2013), Zarei and Izadkhah (2015), Asadi (2016), Rahnavard (2016), Rabbiosi and Santeljo (2014), Ingrid and Bamgartner (2016) have mainly addressed the issues related to the second level of



**Figure 2.** Investigation of the significance levels of the relationships between variables influencing the design of business strategies (primary decisions in parent companies)

decision-making. However, they have not considered the types of these decisions either.

In the meantime, some research such as Amini and Khani (2017), Aghazadeh (2017), Golru et al. (2017), Seifizadeh (2013), Wang et al. (2014) and Arast et al. (2016) each has investigated topics that have a parent company from a functional perspective, but their research purpose is also different from that of the present research.

In general, the present study is one of the innovative activities undertaken and is unique because it seeks to obtain a set of essential decision-making factors at the macro-level of parent companies. This research is a case study, while other research has not done so, nor has their research purpose been like that of the present research. The results of this research have clarified the range of critical decisions in parent companies. Such collections are helpful in better management.

## 6. Conclusion

As previously mentioned, the need for a parent company to have an appropriate management structure and system to manage its subsidiaries is one of the crucial issues for such organizations. Decision-making in the headquarters of these companies typically has a considerable impact on their subsidiaries, and each of their decisions can lead to various effects. To this end, this study sought to design a pattern that is tailored to the current state of Iran and global issues, given the extent of the impact of parent companies in various industries and their extent in Iran.

As we know, the alignment and synergy of satellite companies to achieve the vision of the collection is one of the essential tasks of parents and parent companies. This task of guiding and coordinating subsidiaries becomes increasingly important, especially when multiple goals and strategies are being run. The breadth of the structure and strategies of these companies makes

it inherently harder to coordinate and align. Thus, the result of this study has been helpful for them to avoid wasting resources and assets of the parent companies to achieve the best possible performance; it also avoids the loss of the largest staff capital of these companies at the same time as senior managers. This allows these companies to focus on core issues, preventing them from addressing less critical issues.

## 7. Limitations and Future Research

The two main limitations of this study were: 1) issues related to interviewing and accessing experts, which prolonged the process, and 2) restrictions on access to upstream documents and meeting results, information, and documentation in parent companies due to the sensitivity and importance of these documents.

Several topics are suggested for future research: "a comparative study of decision-making pattern of parent companies in Iran and other neighboring countries," "structuring and ranking the factors influencing management decision-making in parent companies at the level of designing macro strategies or management level of parent companies," "the pathology of decision-making pattern of parent companies in the current situation of Iran (case study: parent companies in the oil and gas industry)."

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