In the early 1980s Michael Goold and Andrew Campbell were fascinated by the issue of how large diversified companies should be run. Diversified companies had sprung up in the post-war years as many of the world’s leading companies set out to expand by buying other companies, often in quite different lines of business. Many people believed that if you were good at running one business, you’d probably be good at running any other businesses. But Goold and Campbell found that there were stark differences in the way that these diversified companies were run. Some were run as financial conglomerates, others were strategically driven from the top and others were a balance between these two extremes. Their work helped expose the weaknesses of conglomerates, contributing to their decline and to the rise of the focused business.

“We had some fascinating dinner meetings bringing together big companies, like BP, Courtaulds, BOC and Hanson,” says Campbell. “It was all very polite and so on, but, in the most delightfully understated British way, they would start attacking each other over the way they ran their companies. One would say ‘Oh, you’re just asset stripping British industry’ and the other would say ‘No, we’re not, it’s you that’s wasting money by investing in useless projects,’ and so on. It showed there was little common ground.”

Defining strategy
Both Goold and Campbell had careers in consultancy before arriving at London Business School in the early 1980s to join the Centre for Business Strategy under Professor John Stopford. The Centre focused on corporate experience and what it could teach – but for Goold and Campbell, their business experience raised as many questions as it offered answers on how big corporations should be organised and how they should set their strategy.

“Up to that point the focus of strategy research had been all about how to compete in product markets,” says Goold. “There hadn’t really been anything about multi-business organisations. And the point is that as companies diversified, you had a lot of businesses that ended up saying ‘OK, we’ve got too much at the top of the organisation, it’s better to decentralise to profit centres, further down the organisation.’ But if you do that, what’s the role of the people at the top? Do they have anything of value to contribute?”

Taking on HQ
Goold and Campbell knew it was a huge step to ask whether or not corporate HQ was adding value, and it was certainly not a particularly welcome question. At the time the thinking on organisational structures was dominated by what was known as the Boston Consulting Group ‘grid’ – the idea that business success came automatically from having a balanced portfolio of business assets. Goold and Campbell overturned that by showing that the key thing was not the assets a company owned but how senior managers interacted with others lower down the structure.

“Michael had been looking at financial analysis and strategy in companies and had already concluded that financial thinking was often used erroneously,” says Campbell. “We noted that top managers have a big influence over decisions, even those that are driven from lower down in the organisation. That influence can be highly positive or highly negative. It is rarely neutral. So the research focused on the conditions that are needed for the influence to be highly positive.”

Control models
Goold and Campbell studied 16 leading multinationals and came up with three ways in which large diversified companies exercise control – the “financial control” style, where financial targets and performance ruled, the “strategic planning” approach where a broader concept of business strategy came first, and the “strategic control” model which balanced financial and strategic controls. They published their ideas in their landmark 1989 book Strategies and Styles, one of the key texts on diversified companies.

“What we realised is that managers have ‘limited bandwidth’,” says Campbell. “In a world of diversified businesses, managers can’t do all the things that ideally they might need to do. You have to decide on one style – you can’t treat all your businesses as different, you just don’t have the capacity to do that.”

The decline of conglomerates
And that led to the question of whether diversified conglomerates really make sense? This question has been answered by corporate history as conglomerates have fallen out of fashion, although some people would say that private equity companies which own many businesses of different types for relatively short periods are arguably the successors of the Goold and Campbell ‘financial control’ model of organisation.

“The work we did made the question ‘what is the value of the corporate centre’ into a legitimate enquiry,” says Campbell. “By the 1990s the thinking of companies on this issue had really been transformed.”

“I think our work helped companies to be more reflective,” adds Goold. “The way you
structure your organisation is the result of a set of choices, it’s important to think about how to do it and what the effect of those choices is. Your choices can be positive, but they can also be very negative.”

**Core ideas**

Goold and Campbell are now at the Ashridge Strategic Management Centre where they continue to develop the ideas first set out in *Strategies and Styles*. Some financial analysts have adopted the approach as a way to evaluate companies, but it has also been helpful in the public and the not-for-profit sectors, says Goold. “These are still questions you come up against in any large multi-unit organisation. It’s just as relevant for the NHS as it is for a large private company.”

But both Goold and Campbell say that it was London Business School that enabled their core ideas to take shape. “It was an extraordinarily interesting time to be at LBS,” says Campbell. “There was John Stopford who was an influential older figure, there was Gary Hamel, there was Rob Grant who’s gone on to be a big name in the strategy field – a really interesting group of people.” Goold agrees: “It was a very fertile time.”

Michael Goold and Andrew Campbell were Fellows of London Business School’s Centre for Business Strategy from 1984 to 1988.