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Governing subsidiaries for value

**A practical framework
for stronger portfolio
performance**



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About the authors

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EXECUTIVE SUMMARY

Across the Middle East, organizations in the public, private, and third sectors are creating subsidiaries to focus on specific parts of ambitious goals related to economic returns, diversification, new markets, and social missions. Subsidiaries offer a way for large organizations, which are often centralized, bureaucratic, or policy driven, to respond quickly to fast-changing economic, social, and technological realities.

The trend is a strategic shift toward greater specialization and agility. By creating distinct new entities, traditional organizations can concentrate talent, expertise, and resources on specific objectives, such as infrastructure development, healthcare, digital transformation, or investment management. Not only can subsidiaries move faster than larger organizations, but their narrow focus can improve accountability. Moreover, they often have a freer hand to fund new opportunities, form joint ventures, take risks, or pilot innovations than if they were operating within the parent organization's traditional framework.

However, all these benefits depend on strong governance to preserve the strategic direction and brand integrity of the parent. Weak oversight can create significant risks, operational friction, and reputational damage. In the Middle East, some subsidiary ecosystems have suffered from overlapping mandates in addition to limited transparency and vague performance metrics. These issues reduced strategic coherence and the parent organization's ability to achieve goals. With this risk in mind, we have identified the main governance pitfalls, as well as the elements critical to designing a strong yet flexible oversight model for subsidiaries.

COMMON GOVERNANCE PITFALLS

As a company's portfolio of subsidiaries expands to address a burgeoning number of goals, the parent organization faces three major pitfalls. One is that a subsidiary's mandate can drift if the subsidiary takes on new activities without the parent's review. The second is that subsidiaries can push their autonomy too far and lose sight of the parent's goals. The third pitfall is that the parent can apply governance processes too uniformly across the subsidiary portfolio, which can result in insufficient oversight for some subsidiaries and too much oversight for others.



PROLIFERATION AND UNCLEAR MANDATES

Over time, as organizations add subsidiaries in order to pursue new mandates, manage assets, or address emerging priorities, portfolios can become large and complex, with overlapping objectives and duplicative functions. Without regular portfolio reviews and a clear process for redefining, consolidating, or winding down subsidiaries that no longer serve their intended purpose, this complexity will persist and worsen, taxing resources and monopolizing management's attention.

Vignette: How mandates expand

To illustrate the challenges related to subsidiary governance, we will present an ongoing case in a series of vignettes throughout this article. Gulf Development Group (GDG) is a fictional national holding company with 18 subsidiaries that deliver projects in tourism, real estate, digital services, logistics, capabilities development, and sector programs.

GDG sets up Harborfront Destination Company with a clear task: Develop a national waterfront district and manage the assets within it. As the district grows, new opportunities emerge. Harborfront takes on a small hospitality cluster, then an events program, and later a set of commercial activities.

Each addition appears reasonable on its own. Over time, however, Harborfront assumes a broader role than originally intended. It eventually operates hotels, runs public events, and supports commercial tenants, all without a structured review of whether these functions align with its core purpose. GDG finds it increasingly difficult to describe Harborfront's primary role within the wider subsidiary portfolio.

Misconceptions about independence

Rather than seeing themselves as part of an integrated group, boards and executives at subsidiaries will sometime mistake their operational autonomy for full independence from the parent's strategic direction, oversight, and decision-making frameworks.

The result are decisions, practices, and priorities that do not align with the parent organization's strategy, diluting coherence across the portfolio. Examples include developing brand identities without consultation, entering partnerships that conflict with existing group agreements, and committing resources to initiatives beyond the subsidiary's scope.

Autonomy is granted to subsidiaries to enable speed, specialization, and innovation—not separation. Without mechanisms and accountability that keep subsidiaries linked to the parent's strategic intent, autonomy can create silos and weaken collective impact.

Vignette: Leaders push their autonomy too far

Over time, Harborfront leaders begin to treat the waterfront district as their exclusive domain. They launch new visuals to promote the site, sign agreements with event organizers, and commit funds to expand a hospitality pilot program. They believe each decision is within their operational purview and is necessary to capture a local opportunity.

For this reason, leadership doesn't discuss decisions with GDG—even though these decisions involve brand use, commercial terms, and multiyear commitments that have implications for the wider group. GDG learns about them after the fact.

One-size-fits-all governance

Some parent companies choose to apply the same governance framework to all subsidiaries, without considering differences in ownership, maturity, structure, size, function, or risk exposure. Although this consistent approach might seem efficient and advantageous, it's often ineffective in practice. Uniform procedures can burden smaller or low-risk subsidiaries and fail to adequately supervise larger or more strategically significant subsidiaries. Matching the right level of oversight to each entity's specific characteristics is critical.

Vignette: One model, two entities

GDG places Harborfront and another subsidiary, HorizonX Digital Ventures, on the same quarterly reporting cycle. GDG owns 35 percent of HorizonX; the rest is held by regional and international investors. HorizonX experiments with digital platforms and AI-enabled services. Unlike Harborfront, it operates with a small team and carries the uncertainty that comes with early-stage innovation. Its contribution lies in building capabilities and creating strategic options.

On paper, putting the two subsidiaries on the same reporting cycle seems orderly. In practice, problems emerge immediately. Harborfront arrives with full reports on asset performance, project time lines, contractor issues, and community programming. The sessions run long, and senior leaders often request follow-up meetings to understand emerging risks.

Meanwhile, HorizonX arrives with a small presentation focused on pilot results, partnerships under negotiation, and early product tests involving digital platforms and AI-enabled services. Much of the reporting required by GDG does not apply to HorizonX's work, and several elements are missing. Not only does the reporting format hamper the venture's ability to focus on experimentation, but it also fails to give GDG insight into the areas that matter most.



The correct oversight model gives the parent confidence in its portfolio, creates predictable routines for boards and executives, and provides the direction subsidiaries need to deliver at scale and continue to unlock value.



DESIGNING FIT-FOR-PURPOSE GOVERNANCE

To avoid the pitfalls described above, parent companies need to implement a fit-for-purpose governance model that brings structure, clarity, and proportionality to the subsidiary network. This effort consists of four steps: optimizing the portfolio, tailoring oversight, operationalizing governance, and refining the model.

Step 1: Optimize the portfolio

To optimize the subsidiary portfolio, the parent must begin by defining its value logic. This involves setting group-level priorities, determining the strategic direction of the portfolio, establishing shared platforms and standards, protecting the organization's risk and reputation profile, and appointing the right leadership.

Once the value logic is understood, leaders can assess how the portfolio as a whole contributes to value creation. Every subsidiary must have a clear role in the portfolio and a path to create value that can be defined and measured (see *Exhibit 1*).



EXHIBIT 1
Roles of subsidiaries

Value role	Description	Typical indicators
Financial returns	The entity delivers cash generation or returns above defined thresholds.	ROIC, ROCE, cash flow, capital efficiency.
Mission delivery	The entity delivers national or organizational outcomes at scale.	Outcome KPIs, service quality, coverage metrics.
Market access	The entity provides access to a regulated or strategically important market.	Licensing status, compliance record, market share.
Capabilities platform	The entity builds capabilities that are essential for the group.	Capabilities maturity, usage across entities.
Risk ring-fence	The entity isolates higher-risk activities from the core.	Risk containment, capital at risk.
Asset stewardship	The entity holds and optimizes passive or legacy assets.	Yield, asset utilization, disposal progress.

Note: ROIC = return on invested capital. ROCE = return on capital employed. KPIs = key performance indicators.
 Source: Strategy& analysis

This clarity with respect to roles and value creation allows the parent organization to identify subsidiaries that are still beneficial, those that need to have their mandates refined, and those that no longer have a compelling place in the portfolio and should be wound down or exited. A disciplined, periodic portfolio review simplifies portfolio complexity and strengthens alignment across the subsidiary ecosystem.

Vignette: A portfolio under review

After a full review of its 18 subsidiaries, GDG determines that several no longer have well-defined roles. Two subsidiaries manage similar community programs with separate teams and overlapping budgets; they should be combined. A logistics company created years earlier still holds some useful licenses, but most of its operations have moved to newer platforms. Its mandate should be redefined. A small real estate vehicle, which owns aging assets that no longer support GDG's strategy and which continues to absorb management attention, should be sold off. Another subsidiary, which was created to pilot an initiative that never scaled, still sits on the books with a board, a CEO, and an annual budget. It needs to be wound down.

Step 2: Tailor oversight

Different subsidiaries require different levels of oversight to ensure continued strategic alignment and accountability. A fully owned, mature operating company in a regulated sector may require only strategic guidance and quarterly reviews; a majority-owned early-stage venture may need active oversight and frequent engagement; a minority-owned joint venture may rely primarily on shareholder protections and influence mechanisms, such as memberships on boards and committees.

To help determine the level of oversight, we have identified six assessment categories: materiality (contributions to group revenue and profits); legal and business setup; ownership and influence; degree of maturity; regulatory and risk exposure; and interlinkages and dependencies. After the assessment is performed, the resulting level of governance should be proportional to the subsidiary's role, maturity, and risk profile. This could range from mostly financial holding, to strategic guidance, to active oversight, to operational involvement (see *Exhibit 2*).

EXHIBIT 2 Degrees of oversight

Financial holding	Strategic guidance	Active oversight	Operational involvement
The parent organization's involvement is limited to exercising shareholder rights and receiving periodic performance updates. Subsidiaries operate largely independently, with light-touch monitoring focused on financial returns and risk exposure.	The parent organization provides direction on strategy, approves business plans, and reviews performance on a defined cadence, while subsidiaries retain operational freedom within agreed-upon boundaries.	The parent organization plays a more hands-on role, participating in key decisions on strategy, budget, and governance. Monitoring is frequent, and the parent may appoint representatives or a lead director to maintain alignment and ensure accountability.	The parent organization is deeply embedded in management and day-to-day decision-making. This stance is typically reserved for new, high-risk, or strategically critical entities for which close control is required to build capabilities or manage exposure.

Source: Strategy& analysis

Besides ensuring that the parent organization's engagement is appropriate, this approach builds a culture of accountability. Subsidiaries learn that autonomy is earned through capability and alignment, not granted by default.



Vignette: Determining the right level of oversight

GDG considers the six assessment categories in order to determine the proper level of oversight for Harborfront Destination and HorizonX Digital Ventures. The differences between the two become clear quickly, resulting in two distinct levels of governance (see *Exhibit 3*).

For each oversight model, the parent organization must define the level of involvement across five key dimensions of governance to ensure clarity when balancing autonomy and accountability:

Strategy: The extent to which the parent shapes, challenges, or approves the subsidiary's strategy and long-term plans.

Performance monitoring: The frequency and depth of performance reviews, how targets are set, and how underperformance or exceptions are handled.

People and organization: The parent organization's role in appointing and evaluating subsidiary leadership, defining incentive structures, and overseeing succession planning.

Auditing and risk management: The degree of parent involvement in setting risk appetite, approving audit plans, and monitoring the effectiveness of controls and compliance.

Corporate governance: Expectations for board composition, committee structures, governance processes, and alignment with group policies and ethical standards.

By applying the oversight philosophy across these five dimensions, organizations can move from abstract principles to the design of practical governance.



Subsidiaries learn that autonomy is earned through capability and alignment, not granted by default.

EXHIBIT 3

Determining level of oversight

Category	Harborfront Destination Company	HorizonX Digital Ventures
Materiality	Significant contribution to GDG's financial position and long-term investment profile.	Limited financial contribution; value is centered on capability building.
Legal and business setup	Large operating company with statutory obligations, regulated activities, and formal governance requirements.	Early-stage venture with simple legal structure and limited regulatory constraints.
Ownership and influence	Fully owned; full control over board appointments and decisions.	GDG holds 35 percent; influence through board seat and reserved matters.
Degree of maturity	Established leadership, stable processes, repetitive operations.	Young company with emerging capabilities and limited internal systems.
Regulatory and risk exposure	High exposure due to public interface, major assets, long-term financial commitments.	Moderate exposure; innovation-focused activities with contained financial risk.
Interlinkages and dependencies	Extensive use of GDG systems, shared platforms, and parent brand.	Limited interdependencies; operates on separate systems with external partners.
Resulting oversight stance	Active oversight	Strategic guidance
	High exposure, shared systems, full ownership, and strategic importance require structured and frequent engagement.	Minority ownership, limited financial impact, and an innovation-focused mandate support lighter oversight focused on influence and direction.

Source: Strategy& analysis

Step 3: Operationalize governance

The parent organization needs a full tool kit—including decision rights, board structures, performance processes, and risk and assurance systems—to operationalize and tailor governance across the portfolio. Each level of oversight requires a different mix of tools to define how authority flows between the parent and its subsidiaries, how decisions are prepared and approved, and how alignment and accountability are maintained. As shown in (see *Exhibit 4*), different tools serve different purposes.

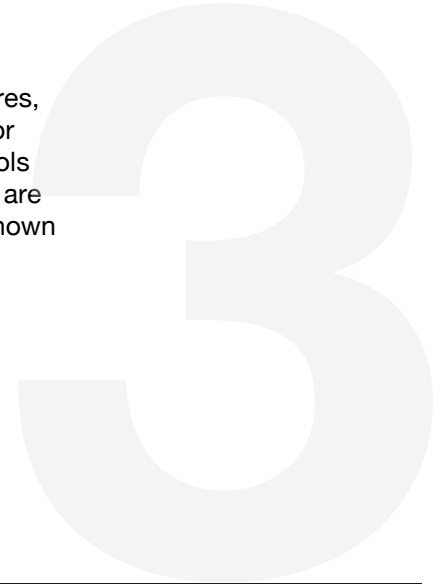


EXHIBIT 4
Governance tool kit

Category	Purpose	Examples
Ownership and capital tools	Establish formal control, influence, and value flows; anchor the parent’s legal and financial rights.	<ul style="list-style-type: none"> • Shareholder and JV agreements • Dividend and treasury policies • Capital-structure rules • Rights of first refusal, tag-along/drag-along clauses
Structural governance tools	Define the formal interface between parent and subsidiary; clarify accountability and decision forums.	<ul style="list-style-type: none"> • Board representation • Committee structure (e.g., board executive committee) • Reporting lines between subsidiary leadership and group executives • Lead directors • Board and committee charters
Decision and information rights tools	Clarify who decides, who reviews, and who must be informed; ensure aligned and efficient decision-making.	<ul style="list-style-type: none"> • Delegation of authority • Reserved matters list • Escalation thresholds • Information rights frameworks
Performance and incentive tools	Align expectations and behaviors; ensure subsidiaries deliver outcomes that support group strategy.	<ul style="list-style-type: none"> • Balanced scorecards • Performance dashboards • Incentive and bonus schemes • Quarterly/annual performance review forums

Assurance and risk management tools	Maintain visibility of risk exposure; ensure subsidiaries operate within group risk appetite and compliance requirements.	<ul style="list-style-type: none"> • Audit programs • Enterprise risk management framework • Risk registers • Whistleblowing systems • Audit and review cycles
Operational tools	Coordinate cross-entity operations and shared platforms; drive efficiency and coherence across the portfolio.	<ul style="list-style-type: none"> • Shared-services agreements and support function agreements • Brand and intellectual property licensing • Procurement and supply chain policies • Cross-entity service-level agreements • Data and systems integration standards
People and culture tools	Embed leadership standards, shared values, and consistent culture across subsidiaries.	<ul style="list-style-type: none"> • CEO and senior leadership appointment processes • Succession and capabilities building plans • Director and management training programs • Cross-entity talent exchanges and secondments • Board and committee evaluation • Leadership evaluation

Source: Strategy& analysis

Vignette: Putting the tool kit to work

Once GDG determines the right level of oversight, it builds two governance structures. For Harborfront, GDG needs oversight across strategy, performance, people, risk, and operations. To preserve HorizonX's flexibility, on the other hand, GDG needs just visibility and the ability to offer occasional input.

GDG starts with Harborfront. The shareholder agreement is updated to set decision protocols, capital rules, and dividend expectations. GDG appoints a lead director, strengthens the board charter, and establishes clear reporting lines between Harborfront's CEO and the group's executive office. Decision rights are then defined so that GDG and Harborfront leaders understand which choices Harborfront can make independently and which require GDG approval. Performance tools are introduced to track delivery and exposure. A new dashboard captures key financial indicators, project milestones, and operating metrics. Assurance tools complete the framework through an approved risk plan, audit cycle, and compliance review process.

HorizonX requires a different approach. GDG's leadership relies on its board seat for information rather than using formal reporting lines. Decision rights give the parent visibility through timely information and periodic review rather than direct intervention. Performance tools focus on progress against milestones for capabilities building. Assurance tools are sized to the company's scale and exposure, with scheduled updates rather than continuous monitoring. Operational tools remain limited because HorizonX uses independent systems and external partnerships.



Step 4: Refine the model

Subsidiary portfolios change as they grow and mature, mandates evolve, sectors shift, and new opportunities emerge. To manage this evolution, parent companies should make governance refinement a recurring discipline rather than an ad hoc response to problems. This begins with periodic portfolio reviews that reassess the role, materiality, and risk profile of each subsidiary. These reviews provide a structured opportunity to confirm whether mandates remain valid; whether oversight stances are still appropriate; and whether changes in ownership, regulation, or interdependencies require adjustment.

Organizations benefit from embedding refinement into an annual cycle linked to strategic planning and budgeting. Doing so ensures that governance evolves alongside strategy and that changes to the portfolio are reflected consistently across oversight expectations and mechanisms. Over time, this discipline allows the parent to maintain proportionate governance, respond to emerging risks and opportunities, and sustain clarity across an increasingly complex subsidiary system.

Vignette: Governance evolves with the portfolio

Several years after implementing its governance model, GDG revisits its subsidiary portfolio as part of its annual planning cycle. The review highlights how the system has shifted. Harborfront has completed its core development phase and moved into steady-state operations, with stronger internal controls and more predictable performance. Its oversight stance is adjusted to reduce the frequency of parent reviews while maintaining clear decision thresholds for major investments.

At the same time, HorizonX has grown beyond its initial pilot phase. Its partnerships have expanded, its financial footprint has increased, and its platforms are now used by other GDG entities. These changes prompt a reassessment of HorizonX's oversight. GDG strengthens board engagement, expands information rights, and introduces more structured performance monitoring.

CONCLUSION

Creating subsidiaries is an excellent way for governments, holding companies, and foundations to address specific parts of complex, ambitious mandates and goals. They can act with greater focus, speed, and agility than the parent organization. But as national priorities evolve and as organizations rely more heavily on subsidiaries to deliver results, these portfolios will become ever larger and ever more complex to manage.

In response, parent organizations need to implement an oversight model that can reliably make decisions, allocate attention, and coordinate activity across subsidiaries with varied profiles. The correct oversight model strengthens the parent's ability to guide long-term investments, manage risks, and support the development of new capabilities. It gives the parent confidence in its portfolio, creates predictable routines for boards and executives, and provides the direction subsidiaries need to deliver at scale and continue to unlock value.

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