DECENTRALIZATION IN MULTI-ENTITY ORGANIZATIONS
AS A CONTEMPORARY CHALLENGE FOR PARENT COMPANY

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Purpose: The purpose of the study is to identify the degree of centralization - decentralization of management in multi-entity organizations. Around the main objective thus formulated, the following specific objectives were established: (1) to recognize the degree of centralization -decentralization of management in multi-entity organizations in light of the literature on the subject (2) to identify the changes directly implemented in the subsidiaries of German concerns during the Covid-19 pandemic, (3) to recognize the directions of changes in the distribution of functions in the subsidiaries of German concerns.

Design/methodology/approach: The method used was content analysis of source materials and the interview method. The director of the production plant (subsidiary) was interviewed systematically (once a year). Interviews were conducted from 2019 to 2022.

Findings: The research shows that during the Covid-19 pandemic period, the scope of functions and decision-making powers were increased for subsidiaries. This is because the idea was to equip them with the necessary competencies to make many important decisions on the spot from time to time.

Research limitations/implications: The research was limited to four subsidiaries belonging to different automotive concerns. The results presented should serve as a starting point for research on a larger research sample.

Practical implications: Coronavirus influenced the acceleration of decentralization processes in concerns. The results of the study showed the changes that the companies implemented in terms of functions and decisions in order to cope with the new challenges (threats) coming from the environment. The results presented in the article can be used by other multi-entiti organizations to redesign the structures of their subsidiaries into more flexible and more resilient to hard-to-predict phenomena arising in the organization's environment. As a result, increasing their decision-making independence.

Originality/value: Demonstrate the trend toward decentralization of management, detailing the functions covered by the changes. The material can be used by practitioners to redesign existing arrangements for functions (tasks) and decision-making powers in subsidiaries.

Keywords: Parent company, subsidiary, centralization, decentralization.

Category of the paper: Research paper.
1. Introduction

A multi-entity organization consists of an overarching unit (parent company) and subordinate units (daughter companies). The parent entity acts as a decision-making and management center. It imposes objectives, strategy, rules of operation on subordinate entities and enforces their implementation. The role of subordinate units is to implement the decisions made (strategy) and generate value for the entire multi-entity organization. As a rule, they are strongly dependent on the company's headquarters in their operations.

Observations of business practice, as well as management theory, indicate that efficiency, quality, flexibility and innovation are becoming categories that determine the development of organizations in the 21st century. The importance of competent employees, information systems, including information and communication technologies, automation and robotics (Industry 4.0), artificial intelligence (Birkinshaw, 2018; Iansiti, Lakhani, 2020) and also organizational culture is increasing. The political and legal situation in the world is changing (Kunisch, Menz, Collis, 2020, p. 4), cultural conditions (Baum, Haveman, 2020, pp. 268-272), global competition is constantly growing and so are the demands on organizations. Global value chains have emerged (Strange, Humphrey, 2019, pp. 1401-1413; Hernandez, Pedersen, 2017, pp. 137-150). There are also phenomena that are difficult to predict and have not occurred before, such as the Covid-19 pandemic. The pandemic is treated as a completely new phenomenon relying on the fact that organizations did not have time to analyze upcoming changes and adopt defensive strategies, but were almost immediately confronted with the consequences of events over which they had no control (Flieger, 2020). The pandemic showed that most B2B companies and society in general were unprepared to deal with a crisis of this scale and nature (Mora, 2020). The pandemic influenced faster-than-ever decision-making in various functional areas of the organization, the processes implemented, accelerated the introduction or modernization of information systems. It has reduced the importance of just-in-time in the supply chain, and has led many companies to reorganize their purchasing policies toward local (continental) purchases instead of global (from regions geographically far from the company's headquarters). Today, organizations are facing a new challenge - the energy crisis.

The ongoing changes in the operating environment of the organization, especially caused by the Covid-19 pandemic and now the energy crisis, are forcing headquarters managers to take a new look at the existing division of functions, power, decisions between the superior unit and subordinate units. The problem of centralization and decentralization of management is one of the most difficult problems, both in organization and management theory and in economic practice. It acquires a deeper meaning and complexity in multi-entity structures (Kreft, 2004, p. 83), in which superior units have the right to interfere in the functional spheres of subsidiaries decomposing the hitherto established distribution of functions and decision-making powers in
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the direction of centralization or decentralization of management. Both solutions have their peculiar advantages and disadvantages, which are revealed in different circumstances. The issues addressed in the study are complex and rarely explored in the literature today.

The purpose of the study is to identify the degree of centralization - decentralization of management in multi-entity organizations. Around the main objective thus formulated, the following specific objectives were established: (1) to recognize the degree of centralization - decentralization of management in multi-entity organizations in the light of the literature on the subject (2) to identify changes directly implemented in subsidiaries of German corporations during the Covid -19 pandemic, (3) to recognize the directions of changes in the distribution of functions in subsidiaries of German corporations. The realization of the first specific objective was carried out in the theoretical part of the study. While the realization of the second and third objectives in the empirical part of the study.

2. The problem of centralization - decentralization of management in multi-entity organizations

The problem of centralization and decentralization of management should be considered at the level of the distribution of corporate functions and decision-making powers between the parent company and daughter companies. Between the parent company and subordinate companies there are so-called hierarchical relationships (Werr, Blomberg, Löwstedt, 2009, p. 451) showing the distribution of authority and responsibility. Corporate functions include production, sales, marketing, R&D, IT, HR, finance, among others (Goold, Campbell, 2003; Neilson, Wulf, 2012; Kunisch, Menz, Collis, 2020). Changes in the organization's environment are conducive to the separation of new functions. While certain corporate functions such as IT, marketing, HR, and finance exist at most firms, new functions, in areas such as risk management and compliance are emerging (Kunisch, Menz, Collis, 2020, p. 15).

The centralization of decision-making functions and powers in multi-entity organizations means shifting them vertically upward, to the level of the superior unit. In traditional functional arrangements, the decision-making autonomy of the managers of individual organizational units, distinguished on the basis of the criterion of function, is controlled to a greater extent by the top management of enterprises. As a rule, this means that they can more or less limit it or, to put it another way, interfere with its scope without violating the "actual" architecture of the enterprise.

Decentralization, on the other hand, is the reverse process, favoring the movement of functions and powers downward to subordinate units. Regardless of the final location of the function, special care should be taken to equip the entity receiving the function with the necessary human, material, financial and information resources. As a result, this will allow the
efficient and effective performance of the tasks that make up the content of the function. In the context of the above statement, two extreme opposite choices can be said. In the case of centralization of functions, the parent unit interferes with the scope of functions of subordinate units, taking them away and locating them in the company headquarters. The corporate headquarters provides centralized services to the company's operating units, such as: HR, IT or media purchasing (Menz, Kunisch, Collis, 2015, p. 645). In turn, the decentralization of functions is accompanied by a process of enrichment of the functions performed at the level of subsidiaries as a result of locating new functions there. As a result, this leads to the implementation of new tasks, stimulating the activity of local personnel, increasing their involvement in business processes. Decentralization of functions is conducive to increasing the position of the unit in the corporation. It can be assumed that the more corporate functions and with them decision-making powers are localized in the company-daughter company then there will be a tendency to decentralize management. If the parent company takes away functions and decision-making powers from the daughter companies there will be a tendency to centralize management. Decentralization is a trade-off between the superior knowledge of local managers and the loss of control at company headquarters (Acemoglu et al., 2007, pp. 1759-1799).

The literature has attempted to empirically verify the degree of centralization/decentralization of management in multi-stakeholder organizations. The results of studies in this regard are shown in Table 1.

Table 1.
Selected research on centralization / decentralization of management in multi-entity organizations

<table>
<thead>
<tr>
<th>Author/year</th>
<th>Description</th>
<th>Research conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kunisch S., Müller-Stewens G., Campbell A., 2014</td>
<td>A study of corporate functions among the 761 largest corporations in North America and Europe.</td>
<td>Companies with business units or divisions have become more capable of standardizing and centralizing their operations, and traditional headquarters functions such as finance, HR, IT, marketing and strategy have grown in size and impact. In the meantime, new features emerge in areas such as risk management. Almost a third of companies reported an increase in corporate functions - and less than 10% reported a reduction - from 2007 to 2010. Leaders in three out of four companies believed that the impact of their corporate functions had increased.</td>
</tr>
<tr>
<td>Kraśniak J., 2012, p. 138</td>
<td>Study of the decision-making autonomy of foreign subsidiaries located in Poland. Research functions: sales and marketing, IT, production, finance, human resources. The research covered 60 subsidiaries operating in Poland.</td>
<td>The level of autonomy of subsidiaries was placed at the level of 1.3 on a three-point scale, where 3 was the highest value, meaning a very high level of autonomy of subsidiaries and 1 - a low level of autonomy. The greatest autonomy was noted in terms of human resources (2.3) in all sizes of the surveyed companies. The smallest in the sphere of production and finance (average result was 0.6).</td>
</tr>
</tbody>
</table>
### Decentralization in multi-entity organizations

<table>
<thead>
<tr>
<th>Source</th>
<th>Description</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zając Cz., 2012, p.167</td>
<td>Research on social aspects of human resource management in subsidiaries of international capital groups located in Poland. The research was conducted in the years 2002-2010 in the same 10 companies.</td>
<td>- loss of managerial and operational independence, resulting in limiting the decision-making powers of the management and limiting innovation and creativity, - elimination or strong limitation of many functions in subsidiaries, - interference of the parent company in strategic and operational management in the subordinated companies, - limiting production (the scope of services provided) and specialization, - centralization and outsourcing of many functions, - numerous organizational changes as a result of slimming, flattening and making organizational structures more flexible.</td>
</tr>
<tr>
<td>Stępień B., 2009, p. 318</td>
<td>Research on the autonomy of subsidiaries. The study covered 35 production branches of international companies operating in Poland.</td>
<td>- the most centralized area is investments in real estate and machinery, - moderate level of centralization and supervision applies to commercial, marketing, supply and distribution activities, - the least centralized area of decisions is the area of shaping the employment policy. However, taking into account the industries, it was noted that Polish branches enjoy the greatest autonomy in the food industry (compared to the machinery and plastic industry) in making decisions in the sphere of trade and supply. There was also a slight increase in the discretionary power with the age of the subsidiaries.</td>
</tr>
<tr>
<td>Broszkiewicz A., 2008, pp. 27-29</td>
<td>Assessment of the impact of industrial groups on the functional spheres of subsidiaries with foreign capital. The research covered 50 subsidiaries located in Poland.</td>
<td>The group is strongly influenced by production and technology (3.84) as well as procurement and sales (3.46). The research showed that in terms of financial management, groups exert an extremely strong influence on subsidiaries (average result 4.58). On the other hand, the greatest interference by groups was recorded in the sphere of investment and development (4.64). A five-point scale with 5 being the group's greatest influence. Only in the area of the personnel function, local managers have greater freedom in making decisions (2.18). The degree of group interference in this case turned out to be the lowest.</td>
</tr>
<tr>
<td>Listwan T., Stor M., 2008, p. 286</td>
<td>Research on management problems of managerial staff in subsidiaries of international organizations. The research was conducted in 2008 among 35 subsidiaries.</td>
<td>On the basis of the research, the authors indicated the postulates of rationalizing the personnel function, including in terms of reducing the degree of centralization of functions and extending the scope of autonomy in subsidiaries.</td>
</tr>
<tr>
<td>Sobotkiewicz D., 2005, pp. 150-153</td>
<td>Autonomy study in terms of the marketing function among 30 subsidiaries of foreign concerns located in Poland.</td>
<td>All decisions in the field of marketing research, product research, prices and promotion are made in the parent company of international concerns. Only in the case of distribution, subsidiaries had greater decision-making independence. Moreover, it was found that subsidiaries mainly perform the executive elements of the marketing function and the mother company - planning and control. Managers, on the other hand, have limited decision-making independence in the field of marketing.</td>
</tr>
</tbody>
</table>

Source: own study.
The results of the research presented here indicate that the greatest interference by the parent in the functions of subsidiaries was in production, finance, procurement, sales, development and marketing, and investment, and the least in the personnel function. The interference of the parent company in the functions and powers of subsidiaries promotes the centralization of management. So it is worth asking at this point, what factors have fostered the centralization of management? The answer to this question is not simple, but an attempt can be made to identify several factors that have triggered the tendency to centralize management, these are:

- the dynamic development of information technology and information programs that facilitate the transfer of information within the organizational structure, as well as programs that support decision-making at various levels of the organizational structure,
- almost in the area of all functions of the enterprise applied computer programs to facilitate the collection, processing and transmission of data,
- the concept of Industry 4.0,
- the tendency to concentrate many functions previously carried out at the level of subsidiaries in the company's headquarters or in spin-off Shared Service Centers, treated as business strategies in the 21st century,
- limiting the role of subsidiaries to the implementation of core functions (e.g., production) with extensive support for auxiliary functions carried out by the company's headquarters or shared service centers.

3. Research methodology

The purpose of the study was to identify the degree of centralization of management in subsidiaries of German automotive concerns during 2020-2021. The following specific objectives were established around the main objective thus formulated: (1) to identify changes directly implemented in subsidiaries of German corporations during the Covid-19 pandemic, (2) to recognize the directions of changes in the distribution of functions in subsidiaries of German corporations. The research was conducted at four subsidiaries of German automotive concerns located in Poland. Each of the companies involved in the study belonged to a different automotive company. At the time the research began, there were no processes of mergers, acquisitions, demergers or divestments of business entities in the concern. The essence of this assumption was to make the results of the research independent of the influence of various disturbing variables that could arise in the case of the above indicated processes. This was a dynamic research focusing attention on processes occurring over time. The research was conducted from 2019 to 2022 and boiled down to monitoring the changes taking place in the area of, among other functions, decisions at the level of subordinate units. The research was
based on a case study procedure. Systematically (once a year) the director of a production plant (subsidiary) was interviewed.

The subsidiaries participating in the survey produce for internal and external markets. The main criterion for selecting units for the sample was the scope of functions performed. The sample included companies that performed a wide range of auxiliary functions. It was assumed that the more functions a parent unit performs, the greater the degree of centralization, and locating these functions in subordinate units may increase the degree of management decentralization.

4. Results and discussion

The first research task was to obtain information for the objective: to identify the changes directly implemented in the subsidiaries of German corporations during the Covid-19 pandemic. During the Covid-19 pandemic, many changes were implemented in the subsidiaries (Table 2) to reduce the negative impact of the coronavirus on the companies' operations. Interviews with plant directors revealed that:

- cost concern (cost containment) has become the biggest challenge for all managers participating in the survey,
- all surveyed companies experienced a significant decrease in sales in the periods IV-VI 2020 and IV-VII 2021 (in one company, the decrease in sales reached 70% in July 2021),
- all of the surveyed companies reduced their employment of primarily production workers. Temporary agency workers were dropped to protect their parent staff (mostly production) from layoffs. However, decisions to reduce employment were made cautiously because there are labor shortages in the labor market and, after the pandemic, there may be high demand for automotive parts and accessories and meeting demand will be tied to the production staff in place,
- problems with movement between countries, the lockdowns introduced have limited (even stopped) the ability of headquarters managers to reach subsidiaries. Problems arose with the implementation of new joint automotive projects, among other things, due to limited support from headquarters for R&D functions at subsidiaries' headquarters. Although long-distance (online) communication tools were used, not all matters could be handled this way. Hence the headquarters decisions to increase the decision-making independence of subsidiary managers,
- problems in the supply chain have emerged. It should be noted here that the automotive industry (including the production of automotive parts and accessories) is highly internationalized and there are strong supply chain linkages. Closing borders between
countries, increasing border controls, and lengthening transportation times for materials have resulted in an almost complete disruption of the supply chain. In turn, the lack of timely delivery of raw materials for production, where the vast majority of companies operating in the automotive industry operate according to just in time, has affected the interruption of ongoing production,

- increased the number of function implementers able to use remote work. It is worth noting at this point that before the pandemic, the automotive industry allowed its employees to work remotely. The companies surveyed were prepared in terms of infrastructure (access to portable computers) to delegate employees to work from home,
- two companies temporarily reduced the pay of their employees,
- energy crisis next to broken supply chains is becoming the biggest challenge for plant (company) directors.

It is worth noting that the introduction of these changes has resulted in a reduction in the size of the organizational structure on the one hand, including as a result of far-reaching changes in the sphere of production through downsizing on the other hand in the gaining of greater decision-making autonomy by managers of subsidiaries as a result of reduced visits by managers of parent units. To some extent, the organizational structures have become more independent of the companies' headquarters.

Table 2.
Changes implemented in subsidiaries during Covid-19 pandemic

<table>
<thead>
<tr>
<th>Changes implemented in subsidiaries during the Covid-19 pandemic</th>
<th>Number of subsidiaries in which implemented changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>The employment of executive (production) staff was reduced</td>
<td>4</td>
</tr>
<tr>
<td>Decision-making authority was increased for subsidiary directors</td>
<td>4</td>
</tr>
<tr>
<td>Virtual task forces were established</td>
<td>3</td>
</tr>
<tr>
<td>Tasks previously performed outside the organization were integrated into the organization's structure</td>
<td>3</td>
</tr>
<tr>
<td>Digitalization of production processes was accelerated</td>
<td>1</td>
</tr>
<tr>
<td>Employees were transferred to other organizational departments of the subsidiary</td>
<td>1</td>
</tr>
<tr>
<td>Increased employment in sales departments</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: own elaboration based on research.

The second research task was to obtain information for the purpose of: To identify the directions of changes in the distribution of functions in subsidiaries of German corporations. In accordance with the assumption that the more functions a parent unit performs, the greater the degree of centralization and the location of these functions in subordinate units may increase the degree of decentralization of management, changes in the distribution of functions were identified (Table 2).
From the interviews, it was found that:

- interrupted supply chains, problems with access to raw materials led to the equipping of the subsidiary with new purchasing tasks. All companies reported an increase in their participation in the search for new suppliers, including strategic raw materials (the main raw materials used in production processes). As a result, this has led to the expansion of local purchasing departments and the expansion of their scope of authority. One of the directions of changes in purchasing is its diversification. Companies will seek and cooperate with local - European suppliers that are geographically closer to the subsidiary,

- the involvement of local R&D, technology departments in the development of new automotive projects (individual components as well as final products assembled in cars) has increased. Also in this function, there was an increase in employment and a greater level of independence for the companies as before the pandemic,

- with regard to the personnel function, there was greater influence by the companies in making decisions on personnel changes, including downsizing, without consulting corporate headquarters,

- in two companies, Product Management departments were given greater decision-making authority to seek new markets outside the group's home market. In the other two, processes have begun to divide this function in order to strengthen subsidiaries in their independent search for new customers,

- the smallest changes across all the surveyed entities were recognized in the risk management function. In one of the surveyed companies, the involvement of the local management in updating the risk management system for the entire organization was increased. The remaining surveyed companies are supported in this function by headquarters.

Table 2.

<table>
<thead>
<tr>
<th>Changes in the location of functions and decisions</th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Personnel</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Product management</td>
<td>+</td>
<td>Project of division between parent company and subsidiary company</td>
<td>Project of division between parent company and subsidiary company</td>
<td>+</td>
</tr>
<tr>
<td>Risk management</td>
<td>+</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

+ increase in the scope of tasks and decision-making authority over functions.
- no change.

Source: own elaboration based on research.
The delegation of new elements of functions (tasks) and additional decision-making powers to subsidiaries for implementation indicates an increase in their decision-making independence, thereby strengthening the companies' position in the entire multi-entity organization. As a result, they become more independent in their decisions within the various functions of the organization. There are no optimal solutions for functions and decisions. There are only temporary solutions that work for a specific time and circumstance. In the automotive sector, there is a strong internationalization of the supply chain, just-in-time deliveries, heavy dependence of factories producing finished cars on automotive parts suppliers (including non-group companies). The pandemic has had a negative impact on the entire sector. The effects of the coronavirus will have many complex consequences for corporations, for subsidiaries, even in the event of a rapid return to pre-pandemic conditions.

5. Conclusion

There was a tendency in the surveyed organizations to decentralize management (to increase the scope of functions and decisions carried out to subsidiaries). Increasing the level of decision-making autonomy of local companies was influenced by the degree of trust in local management and their ability to manage costs. It is trust and cost optimization that are the main drivers for delegating new functions and powers to the level of subsidiaries during Covid-19. While the constraints on the functioning of the organization, caused by the pandemic, became the main reason for making changes in the organizational structures of subsidiary companies, the increase in their power was influenced by the factors indicated. Major changes observed within the purchasing function as a result of broken supply chains and the ineffective just-in-time method. There is now a trend toward local purchasing - within a given continent. Today, there will be an increasing role and importance of purchasing at the subsidiary level. Also, the product management function will play an increasingly important role in subsidiaries. Searching for new markets, making offers, and providing customer service will be more locally based as before. The challenge for headquarters is to take a new look at the arrangement of functions and decisions throughout the multi-entity organization due to the increase in the cost of operating the organization as a result of the energy crisis and the possibility of another pandemic. The decision to change the location of functions, decisions, changing the current state of centralization/decentralization of the management of the corporation should be preceded by a comprehensive analysis of the places that guarantee the best conditions conducive to the implementation of functions. This is not an easy task, fraught with great risk, but necessary due to the major changes (their continuity) occurring in the environment of the operation of multi-entity organizations.
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References


