

PROCEDURE FOR DETERMINING A CHANGE IN LOCATION OF A CAPITAL GRUP'S SUPPORT FUNCTIONS. CASE STUDY OF AN MULTINATIONAL ENTERPRISE

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Purpose: The purpose of the study is to identify the method used by top managers to determine the location of support functions in the capital group? Around the main objective thus formulated, the following specific objectives were established: (1) to develop a procedure for determining the relocation of support functions of a capital group; (2) to identify and characterize methods for determining the location of support functions; (3) to identify the method used to determine the location of support functions for displaced functions in a subsidiary of a German capital group in the automotive components industry.

Design/methodology/approach: A case study procedure based on longitudinal empirical research was used. The ongoing changes in the subsidiary's support functions were monitored systematically (once a year). The case study procedure used the method of content analysis of organizational documents (organizational charts) and an individual interview with a list of open-ended questions. The interview was conducted with the director of the plant (who also serves as a member of the board of directors). The purpose of the conducted interviews was to deepen the issues discussed. The research was conducted from 2010 to 2024 at a subsidiary of a German automotive components company.

Findings: The experience and intuition of the plant director has the greatest influence on the selection of the final location for the displaced support functions in the subsidiary's organizational structure. A method based on benchmarking and factors is occasionally used.

Research limitations/implications: The study was limited to one subsidiary of the capital group. The opinions, rationale of only one party - the director of the subsidiary - were studied. The presented results should serve as a starting point for research on a larger research sample.

Practical implications: The information in the article can be used by other managers of subsidiaries, enterprises in different sectors to redesign the current layout of support functions. Relocating functions carries certain costs, risks and social impacts. Therefore, the final relocation of functions should be the result of a well-designed decision.

Originality/value: Development of a procedure for relocating the auxiliary functions of an AI with separate methods for determining the location of functions. Empirical verification of the applied methods in the process of relocating functions at the subsidiary level and between it and the parent company.

Keywords: Subsidiary, parent company, support functions of the company.

Category of the paper: Research paper.

1. Introduction

In modern organizations, especially business entities, the only constant is constant change. The main active areas are: changing technology, changing marketing and promotion strategies, changing forms of personnel communication, changing ways of organization or changing management models (Kiełtyka, 2016, p. 8). Making changes in various areas of an organization rests with the managers who run it. This is because, according to B. Bajcer, the success of an organization largely depends on the manager's ability to cope with a complex and rapidly changing world, especially his ability to think strategically (Bajcer, 2014, pp. 265-277). Today's managers have to make risky changes in the organization, and they have to be able to combat misunderstanding when making these changes and the reaction of their subordinates to these changes. They are referred to in the literature as the managers of tomorrow or the managers of the new era (Kiełtyka, 2016, p. 9).

The changes that are taking place in the global economy in economic, technical, social and political dimensions affect the functioning and development directions of modern capital groups. On the one hand, these changes are forcing the implementation of increasingly effective and economically rewarding organizational solutions. On the other hand, they generate a variety of problems of varying nature, scope and complexity. One of the current problems, constantly important, especially in the era of constant changes in the environment of modern capital groups, is changes in the location of support functions. This is a problem of great complexity, since they can occur with varying intensity, occur simultaneously in all or selected companies of the capital group, involve functions of strategic importance to the capital group. The problem outlined above gives rise to the need to develop a procedure for determining the change in the location of the capital group's support functions. Since any change in the organization, including the location of functions, carries certain costs, risks and social effects, it should be based on a predetermined procedure.

The research nature of the study set the following objectives: on the empirical level: (1) the development of a procedure for determining the relocation of ancillary functions of a capital group, (2) the identification and characterization of methods for determining the location of ancillary functions; on a practical level - (3) the identification of the method used to determine the location of ancillary functions for displaced functions in a subsidiary of a German capital group in the automotive components industry.

2. Theoretical assumptions

The existing arrangement of support functions and the need to optimize the functional areas of the capital group constitute a starting point for discussion about possible directions of their changes. As a result of relocation of functions, smaller or larger changes occur within the economic entity or in the entire capital group. There are changes in the structural elements of the organization (cells, departments, divisions), in interpersonal relations, in human resources (qualifications, competences), in the level of costs generated by internal units (increase, decrease), etc. We can therefore assume, following R.W. Griffin, that changing the location of a function is a significant modification of some part of the organization (Griffin, 2002, p. 393). In managerial practice, various methods can be used to solve the problem of changing the location of support functions in the structure of a capital group. The author indicates three basic methods that are an important element of a larger whole - the procedure for determining the change of location of support functions of a capital group (Figure 1).

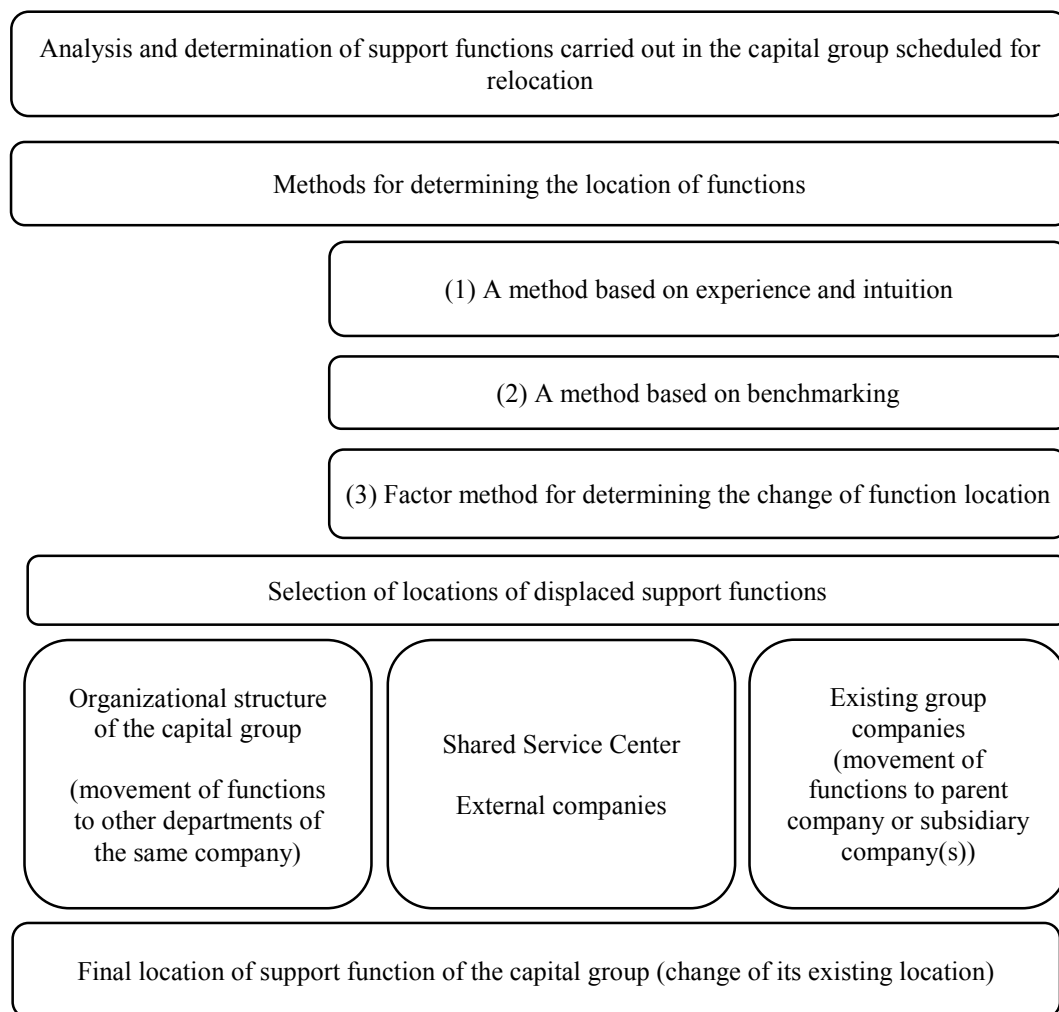


Figure 1. Procedure for determining the change of location of support functions in a subsidiary of a capital group.

Source: Own elaboration.

Under the first method, the experience of decision-makers (top managers) has a significant impact on choosing the right direction to move functions in a multi-entity organization, on reducing the risk of a wrongly chosen organizational solution. More experienced decision-makers are more likely to use an intuitive approach than an analytical one (Pretz, 2008, pp. 554-566). Ongoing research indicates that effective managers use intuition in their work when making decisions (Sadler-Smith, Shefy 2004, p. 79). Intuition is useful in the face of a crisis or emergency when new trends emerge and data is insufficient, inadequate for the problem, or missing (Williams, 2012, p. 59). According to S. Tokarski, intuition should be seen as a manager's ability that can be developed, studied and used to support decision-making (Tokarski, 2005, p. 279). Managers, using intuition, are distinguished not only by a different way of perceiving organizational situations, but also by a unique approach to decision-making problems, the ability to identify and take advantage of opportunities in the marketplace (Malewska, 2014, p. 20). The ability to identify market opportunities is not only conducive to generating additional revenue, but is also the ability to make changes in the function area to increase the efficiency of the entire organization. On the one hand, relying on this method is conducive to solving a problem in a short period of time, with the involvement of a small group of managers, but on the other hand, intuition can lead to ignoring facts (Malewska, 2014, p. 21; Serafin, 2006, p. 11), which, if functions are relocated incorrectly, can carry significant consequences, such as financial and social impacts (staff reductions).

The second method based on benchmarking provides an opportunity to implement solutions for the relocation of functions that have produced the desired results for other groups of companies, competitors, industry leaders and also entities in other industries. As a result, the solution to the problem comes down to adapting already existing solutions to the current environment. A serious barrier here can be access to data (to the latest solutions). The innovation of such a solution is low. In addition, in terms of specific functions there are established as well as dominant solutions, which are not necessarily the best in the industry or sector. But this modeling of the leader or following the dominant trend can be so "ingrained" in the management practice of managers that they implement already existing function localization solutions, treating them as the best, without looking for new, innovative ones. An example of this is, among other things, the existing tendency to centralize R&D and marketing. This trend has been going on for several decades. While the protection of the know-how generated by these functions is an appropriate phenomenon, reducing the personnel of subsidiaries to the role of mere operational implementers of these functions (to executors of top-down orders) is a far-reaching limitation of their creativity and development of human potential. On the other hand, however, imitation of already proven locations reduces the cost and time of constructing and implementing one's own solution. In addition, it is a guarantee, at least temporarily, of an effective and appropriate choice of location for the implementation of functions.

Under the third method, the factor method, a set of factors, their strength and direction of influence are determined. Each influential factor should be recognized and analyzed in detail. Selected factors of change along with their direction of influence are shown in Table 1.

Tabela 1.
Factors of change

Selected factors of change	Direction of influence
Cost reduction.	Centralization of functions
Maintaining the cohesiveness of the capital group.	
Uncertainty of the environment.	
Protection of specialized knowledge.	
Concentration on the subsidiary's core business domain.	
Restriction in access to qualified personnel in the region of the subsidiary's location.	
Function-specific factors.	
Increased involvement of local personnel in business processes.	Decentralization of functions
Orientation to talent management.	
Financial soundness of the daughter company.	
Access to qualified personnel in the region of the daughter company's location.	
Increased qualification of the daughter company's personnel.	
Legal regulations of the daughter company's location country.	
financial, material, information resources held by the daughter company.	
Function-specific factors.	
Reduction of costs in the long term.	Shared service center
Reduction of duplicated support functions.	
Stopping the proliferation of support functions in group entities.	
Elimination of duplicated support processes.	
Optimization of staffing at the administrative and “purely” executive levels.	
Conducting a common purchasing, sales, marketing, investment, renovation, etc. policy within the group.	
Gathering expertise and know-how in one place, developing it and using it outside the group structure.	
Function-specific factors.	

Source: Own elaboration.

3. Research methodology

In the research proceedings, the main problem boils down to the question: Which of the methods of determining the location of support functions has been used in economic practice? Around the main problem thus established, the following research questions were formulated:

1. Which support functions were relocated?
2. What reasons triggered the relocation of functions?
3. Where were the relocated functions located?

The following assumptions were made for the research investigation:

- the main criterion for the selection of a group subsidiary was the availability of data;
- the research was conducted in a domestic subsidiary of a German capital group, whose local management agreed to participate in the research;
- at the time the research began, there were no processes of mergers, acquisitions, demergers, divisions, divestitures of internal business entities in the capital group that could directly or indirectly affect the organizational structure of the studied entity. Thus, the essence of this assumption was to make the research results independent of the influence of various disturbing variables;
- it was a dynamic research, focusing the attention of the researchers on the processes occurring over time;
- the research lasted fourteen years and boiled down to monitoring the changes taking place in the subsidiary's support functions;
- a case study procedure was used for research purposes, based on a longitudinal empirical studies. The state of the organizational structure was monitored systematically (once a year). The case study procedure used the method of analyzing the content of organizational documents (organizational charts) and an individual interview with a list of open-ended questions;
- individual interview was conducted with the director of the plant (who also serves as a board member). The purpose of the conducted interviews was to deepen the issues discussed.

4. Relocation of support functions in a subsidiary - research results

The first stage of the research was to determine the extent of the subsidiary's support functions. The results of the research in this regard are shown in Table 2.

Table 2.
Subsidiary functions with separate support functions

Functions of the subsidiary		Implementation of functions in subsequent years			
		2010	2014	2017	2023
Main function	Production				
Support functions of a technical nature	Research and Development				
	Pre-series production				
	Purchases				
	Logistics (internal, external)				
	Quality control				
	Maintenance				

Cont. table 2.

Support functions of an economic nature	Marketing				
	Sales				
	Personnel				
	Personnel development				
	Accounting				
	Controlling				
	IT				
	Occupational health and safety				

realization of the function

lack of realization of functions

Source: Own elaboration.

In 2010, the following organizational departments functioned in the subsidiary's structure:

- production department, in which process engineering tasks for production activities were additionally carried out,
- the paint shop department, where component painting processes took place,
- the logistics department, which handled internal and external logistics and production planning,
- the maintenance department,
- personnel department, accounting and quality control.

The first changes in the relocation of functions were recorded in 2012 (Table 3). The production department was strengthened by locating the paint shop and production planning there. A stand-alone process engineering department was created with the competence to optimize processes for the entire plant. A cell was separated in the logistics department to deal with spare parts procurement.

Table 3.
Relocation of functions in the subsidiary in 2012

Support functions	Current function location	Reason for relocation of functions	Method used	New location of the function
tasks in the production process area	varnish department	concentration of responsibility for the entire production process, including component painting, in one place	a method based on experience and intuition	production department
production planning	logistics department	conflicts between production staff and logistics staff (not fully taking into account production guidelines)	a method based on experience and intuition a method based on benchmarking	production department
tasks in the area of process engineering	production department	extension of optimization processes to the entire plant	a method based on experience and intuition	creation of a new process engineering department
spare parts purchasing	various departments of the production area	concentration of spare parts purchases in one place	a method based on experience and intuition	department logistics

Source: Own elaboration.

Further changes in support functions were noted in 2014-2016 (Table 4). A new instrument construction department was created to design and build an assembly instrument from scratch based on the product design received from the customer. Previously, these competencies belonged to the parent unit and external companies. Within the logistics department, the logistical handling of production was separated as a result of centralizing the internal logistics carried out in the three cells of the production department. Profound changes took place in the structure of the maintenance department. On the basis of the department, the technology department was separated and maintenance was transferred to the production department. Undoubtedly, this change reduced the rank of maintenance. It is worth noting that during this period the company was separating new positions in personnel development, controlling, construction and increasing employment, including engineers - constructors. This was a natural consequence of the company's development and the high demand for its products.

Table 4.
Relocation of functions in the subsidiary in 2014-2016

Support functions	Current function location	Reason for relocation of functions	Method used	New location of the function
tasks in the production process area	corporate headquarters external companies	the experience and competence of the subsidiary's engineers (personnel with passion)	factor method for determining the change of function location	creation of a new department of instrument construction
internal logistics	various organizational units of the production department	conflicts between production staff and logistics staff (not fully taking into account production guidelines)	a method based on experience and intuition a method based on benchmarking	logistics department
maintenance	maintenance department	identification of production workers with machines	a method based on experience and intuition	production department
spare parts purchasing	logistics department	relieving logistics of tasks that do not concern its competence	a method based on experience and intuition	creation of a new technology department

Source: Own elaboration.

The following changes in support functions were observed between 2017 and 2022 (Table5):

- the purchasing function was strengthened by locating it in a stand-alone department, while assigning new strategic purchasing competencies to it for the company,
- quality planning was transferred to the company's headquarters,
- a production plant directly reporting to the subsidiary was put into operation with separate functions: production, maintenance, logistics, personnel. In terms of other functions, the plant is operated by the subsidiary.

Table 5.
Relocation of functions in the subsidiary in 2017-2023

Support functions	Current function location	Reason for relocation of functions	Method used	New location of the function
perchasing	technology departament	extension of purchasing to include the purchase of strategic components	factor method for determining the relocation of functions	creation of a new administration and finance department
maintenance logistics, personnel	existing departments of subsidiaries	creation of a new production plant directly subordinate to a subsidiary	factor method for determining the relocation of functions	new production plan (transferring selected tasks from function areas)
quality planning	quality control	subsidiary's concentration on executive matters	factor method for determining the relocation of functions	company headquarters

Source: Own elaboration.

Changes in the location of ancillary functions have shaped a new arrangement of functions in the subsidiary (Figure 2).

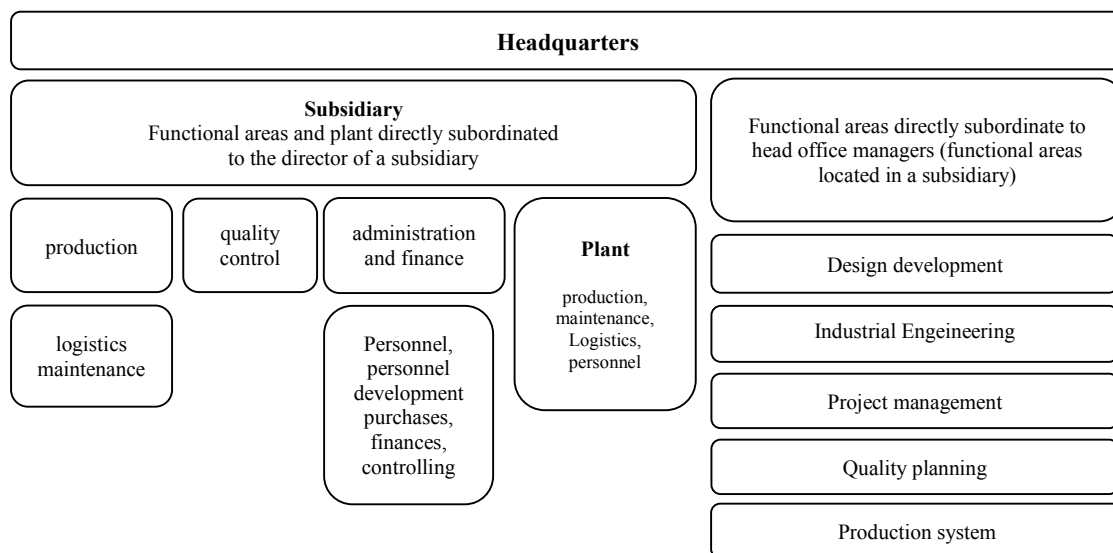


Figure 2. Functional areas of the subsidiary in 2023.

Source: Own elaboration.

The subsidiary and plant carry out support functions for the manufacture of products. The parent company, on the other hand, takes charge of functions of a planning, conceptual and design nature with the strong support of Polish managers and specialists who report directly to the functional managers of the head office.

5. Conclusion

The responsibility of managers for the future of the organisation, for its performance, innovation and development, involves solving organisational problems and making decisions about its functioning. The problems may be of different nature and complexity and their solution may be accompanied by decisions involving many managers, specialists from different organisational units of the company or outsiders. According to K. Bolesta-Kukulka, three areas (levels) of problems can be distinguished in organisational management: owner, managerial and executive (Bolesta-Kukulka, 2003, pp. 20-21). The problem of relocating ancillary functions fits into each of the above areas, as it can relate to:

- the owners' acceptance of the spin-off of a completely new function in the structure of the group company,
- determination by the manager(s) of the place of realisation of the function in the structure of the group company,
- determination by the manager(s) of the location of specific function tasks within the company structure.

The aim of relocating functions is to use human, material, financial and information resources more efficiently as before and to optimise functional areas, organisational processes, organisational structure. But also the adaptation of the company structure to changing environmental conditions. Declining demand for the company's products, staff shortages, rising media prices are influencing the reorganisation of the support functions carried out. Therefore, a change in the location of the function should be preceded by a comprehensive analysis of the places that guarantee the best quality of the function's tasks. This is because any relocation of functions carries certain costs and risks. It has greater or lesser effects at subsidiary and group level.

Analysing the changes in the location of support functions (Figure 3) in the subsidiary of the German capital group over a period of several years, it can be concluded that they were caused by internal reasons and that the dominant method of determining the location of functions was based on the experience and intuition of the plant director - the manager managing the company from its inception. Many of the changes in the area of support functions were made without interference from company headquarters. This demonstrates the trust that the company's head office placed in the local management. This trust was built up by apt decision-making at subsidiary level, which was largely based on the experience of the plant director - his many years of work for the capital group. Occasionally, a method based on benchmarking was used. This was due to the fact that the capital group lacks a company - a benchmark for comparison - and access to information from competing companies is difficult. General information gained from the market (from competitor companies) gives some picture of reality, but without access to detailed information, its use in business practice is very limited.

The method based on drivers of change has also been used sporadically. This was due to the fact that in the period of the research, centralisation, decentralisation of functions were not taking place on such a large scale. Furthermore, there is no Shared Service Centre in the Group.

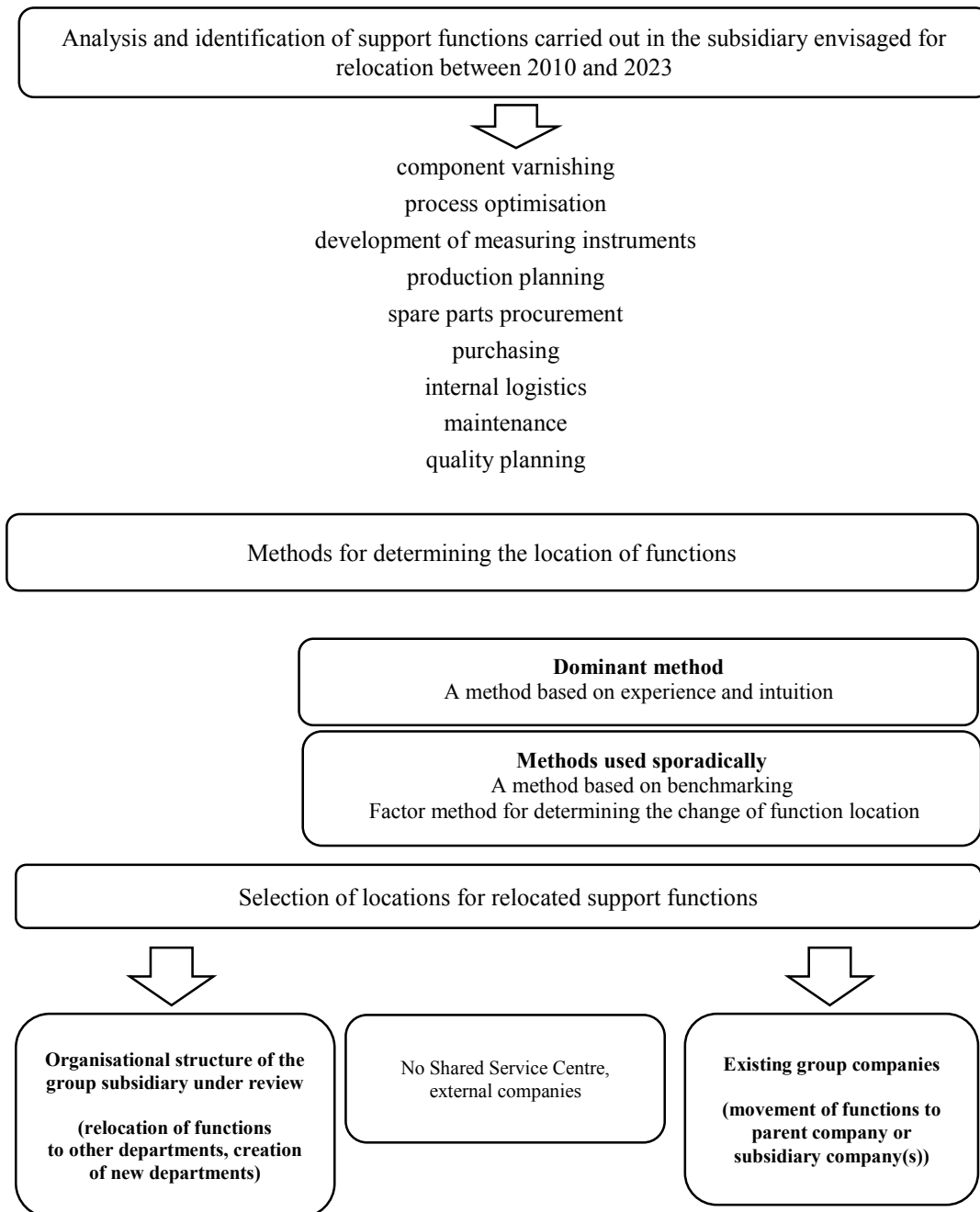


Figure 3. Procedure for determining the change of location of support functions in a subsidiary of a capital group.

Source: Own elaboration.

The research results presented in the article show the methods used in the relocation of support functions in a subsidiary of a capital group. The further direction of research should be to conduct research on a larger research sample. This would allow for the verification of the most frequently used methods of changing the location of functions and strengthening the

theoretical assumptions of the identified methods (possibly developing additional new methods).

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