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Contemporary trends in the management of multiple economic entities

1. Introduction

The national and international literature on the subject from time to time puts the question: in what direction is the management in big complex organizations, so called multiple economic entities, heading¹? Is there a tendency for centralization or decentralization of management? Do the subsidiaries realize wider and wider range of organic functions and decision-making powers² or these are limited? Searching for the answer to these questions seems to be important especially in times of constant transformation of multiple entities. Observing the business practice and the theory of management indicates that efficiency, quality and flexibility (see: Krupski 2005, pp. 7-13) as well as innovations become the categories that set the directions for organizational development in the 21st century. Human factor, IT systems implemented, information technology and organizational culture

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1 For the purposes of this elaboration assumed that big complex economic organisms, so called multiple economic entities consist of parent company and subsidiaries with different legal and economic status.

2 The author of the study includes production, logistics, personnel, finance, marketing, trading etc. as organic functions.

are more and more important. The competition and requirements for the organization constantly increase. These factors make managers of a parent company to take decisions about the way subsidiaries operate. On one hand this can lead to increase in organic functions realized and decisions being made in subsidiaries. That will result in management decentralization. On the other hand, in the process of implementation, something quite opposite may occur. Parent company can take the functions and powers back from the subsidiaries and put them in its central units. In that case one can observe centralized system. The issues being examined in the study is complex and its validity is raised in the scientific literature. Z. Kreft (2004, p. 83) believes that the problem of centralization and decentralization is one of the most difficult ones both in organization and management theory and business practice. However, as the author states, the problem becomes more complex and gains importance in multiple entities, so in multi-sites companies, concerns and holdings. Their managing centers interfere in the functional sphere of subsidiaries decomposing previously established distribution of functions and powers of decision-making in the direction of centralization or decentralization of management. Both solutions have advantages and disadvantages which become visible in various conditions.

The aim of this elaboration is to recognize trends in management of multiple economic entities. The attention is focused on centralized and decentralized way of management. The work is of theoretical – empirical nature. It is based on literature of the subject and study results of various researchers in last ten years in the field of centralization and decentralization of multiple economic organisms. What is more the most current results of the author's research in the field of mining are included.

2. Flexibility of organizational structures in multiple economic entities

The changes taking place in operations of multiple economic entities caused by intensification of competitiveness in almost all branches of economy, pressure about the cost of products while keeping optimal quality of delivered goods and services force on the boards and supervisory boards a new approach to managing the subsidiaries (Sobotkiewicz 2011, p. 434). That in turn forces the managers to make changes in company's organizational structure providing flexibility and efficiency of operations (Lachiewicz, Zakrzewska-Bielewska 2010, p. 23). Comparing companies from the beginning and the end of the second half of 20th century one can come to the conclusion that major changes can be

observed. The boundaries between the enterprise and the environment blur. The variability of this environment and the company's activities means that it is in constant imbalance. There is less of the routine and more of variability as well as innovation (Haus 2004, p. 15).

Representatives of the scientific world and economic practice for several years emphasize that the environment in which the organization operates becomes more uncertain, unpredictable and even stormy. Long-term forecasting and planning becomes harder. Also harder is to predict the effects of decisions taken, even at the lower levels of the organization. After R. Krupski (2005, pp. 7-13), the remedy for the environmental turbulences is flexibility of the organization. G. Osbert-Pociecha (2008, p. 9) points out that the comfort of flexibility is a kind of reaction when facing operational uncertainty of the company and lack of direct possibility of extrapolating current operations. Flexibility as ability to cope with uncertainty links with the ability of reacting to (foreseen and unforeseen) changes through creation and choice of reversible operational and developmental options as well as creating ways and means to change these options while maintaining business continuity and optimum effort and time commitment (Krupski 2008, p. 24). The author examines the flexibility, *inter alia*, in the context of organizational structures in the cross section of each of its dimensions: hierarchy, specialization, formalization and standardization. Similar approach to flexibility has J. Brillman (2002, p. 391) who states that one can call an organization flexible when one can say that its structure and culture enables quick adaptation to client's needs and demands of competitors. Author distinguishes the short decision-making processes - a flat structure, executive employee's empowerment as a feature of a flexible organization. In the recent years, the significance of process management and process structures gains importance. Employees' teams for the purpose of carrying out processes are created. Comparing functional and process structures, the other ones exhibit greater flexibility in terms of adaptation to environmental changes and market demand. Customer orientation brings the demand for flexibility and thereby flattening the organizational structure and focusing on processes serving customers bringing profit for the organization (Piotrowicz 2001, p.12). Analyzing the relationships between the evolution of the business category and the development of management sciences C. Suszyński (2010, p.41) notes that process approach is seen as an important step because it intensifies the tendency to move away from vertical (hierarchical) organization of businesses in their activities for the organization of the horizontal (coordinate along the process, matrix organization) - enabling greater response flexibility and cooperation. According to J.M. Lichtarski (2011, p. 7) in management theory

numerous concepts of flexible organizational structures had been developed and still are being developed, close to each other in terms of being, and known as the structure of task, project, team or ad hoc. Temporary teams for solving definite problems, product development or advertising campaigns can be created within multiple economic entity. Employees from many subsidiaries can be invited to be a part of such teams. Undoubtedly, the structure of task forces may occur simultaneously alongside traditional at both the master and subordinate.

Multi-plant company, holding and concern are distinguished among the basic forms of multiple entities. Their structures are characterized by different level of flexibility what is depicted in Figure 1. The picture also shows different types of holdings which are widely and commonly presented in subject literature. Their level of flexibility is worth showing.

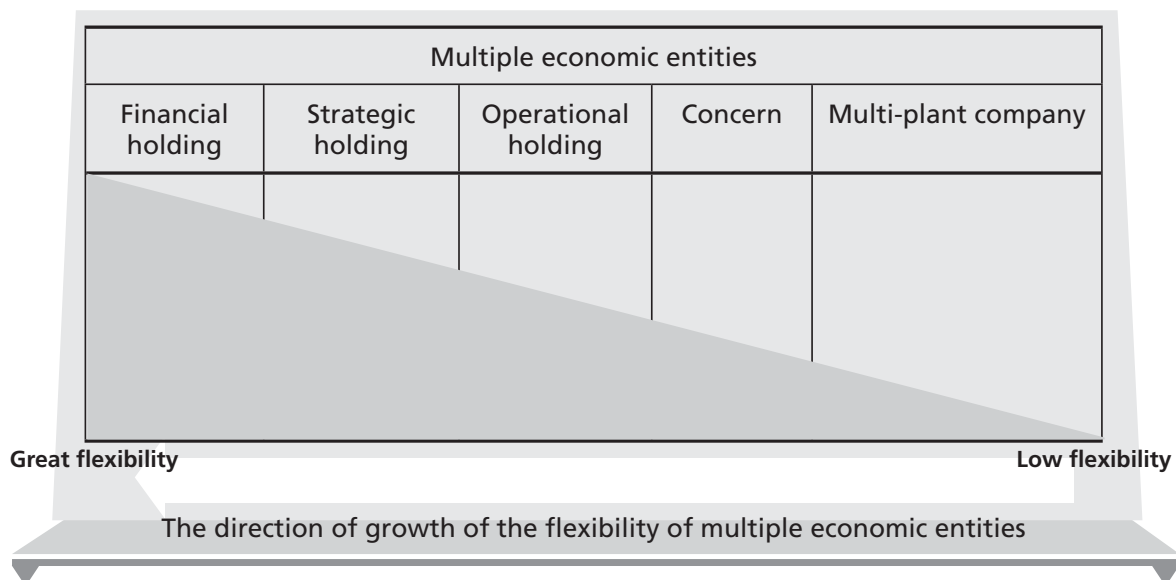


Figure 1. Flexibility of structures in organizational structures in multiple economic entities

Source: own study

Flexibility effect³ in structures is possible to obtain through management decentralization. Hence it can be assumed that the most flexible form is financial

³ About flexibility in structures of multiple economic entities writes i.e. F. Hoffman (1993, pp. 18-19).

holding and the least flexible is a multi-plant company. This interpretation can be proved in management theory. As J. Niemczyk (2009, p. 69) states holding arrangement is far more flexible than multi-plant company. Legally independent entities can be easier sold and acquired depending on the opportunities and threats shaped in the environment.

3. The problem of centralization and decentralization of management with respect to conducted empirical studies

The problem of centralization and decentralization should be considered at the level of distribution of decision-making powers between the parent company and its subsidiaries (Kreft 2004, p.83). Centralization would mean placing decision-making powers in structures of the parent company and decentralization placing those powers in subsidiaries. Poor distribution of decision-making powers may be the trigger functional imbalance (Kreft, Karwan 2003, p.19). this situation would occur when excessive centralization or decentralization takes place. In structures of multiple entities there is no room for full centralization or decentralization. Implementation of the first solution would make operations of subordinate entities impossible because they need some freedom in decision-making in operational sphere. The second solution would left the superior entities without its core attribute meaning interfering in the affairs of subordinate entities, which in turn would lead to their limitless independence. The literature gives two factors that make the choice of precise organizational solution concerning management centralization or decentralization easier. Most often cited is the statement by H. Jagoda and B. Haus (1995, p.171). They are presented in table 1.

Table 1. Factors for management centralization/decentralization

Factors	The tendency to centralize management	The tendency to decentralize management
The degree of relationship of the business with the market	The smaller	The more
Economic system	Industry, cooperative, conglomerate	Conglomerate
Industry diversification status	Low	High

Economic entities placement	Close (inside the country, region. Voivodeship)	Distant (other countries and other parts of the world)
Requirements for uniformity of rules of operation	High	Low
Economic units management qualifications	Low	High
Staff links	Personal union	None
Legal form of companies	Limited liability	Public limited company
Substantive functions distribution	The more functions realized in master company	Distributing the functions in subsidiaries
Personnel experience	Low	High

Source: own study based on: Jagoda, Haus 1995, pp.171-172

In the last ten years an there was an attempt to empirically verify the degree of centralization/ decentralization of management in multiple economic entities. The results of the studies from this period presented herein, although general due to the limited volume of studies, show the degree of interference with the parent bodies in the functional sphere of subsidiaries. In 2009 J. Kraśniak (2012, p.138) conducted the research also in the subsidiaries located in Poland about decision-making autonomy. The author included functional areas such as: sales and marketing, IT, manufacturing, finance and staff. The analysis of the results showed low-medium level of autonomy in decision making within surveyed entities. In scale of three points (1-3), where three is the maximum value, level of autonomy was 1.3, which in turn shows high level of autonomy of subsidiaries⁴. The greatest freedom was reported in staff (2.3) regardless the size of surveyed entity. The lowest level of decision making autonomy was observed in manufacturing and finance (average score was 0.6). In 2008 A. Broszkiewicz (2008, pp. 27-29) measured the forces of industrial groups

⁴ The scale the author used while conducting research: 0 - no decision making autonomy; 1 - low level of decision making; 2 - medium level of decision making autonomy; 3 - high level of decision making autonomy.

affecting functional spheres of subsidiaries of foreign capital. 50 entities from different branches of industry were subjected to the survey⁵. The study showed that in terms of financial management group has an extremely strong influence on subsidiaries (average score 4.58). Manufacturing and technology (3.84) as well as supplies and sales (3.46) are under strong influence of the group. The strongest influence was noted for investment and development (4.64). This sphere is totally subjected to group influence (Broszkiewicz 2008, p.29). Local managers have greater decision making freedom when it comes to personal function (2.18) as the level of group interfering turned out to be lower. In the years from 2006 to 2007 B. Stępień (2009, s.318) had conducted very interesting research among 35 production company subsidiaries operating in Poland. Particularly interesting results obtained from the proceedings of the research for purposes of this study are the results of the degree of head office interference in operations of local establishments. And so:

- the most centralized area is investment in fixed assets (buildings and machines),
- moderate level of centralization can be observed in trade, marketing, supply and logistics,
- the least centralized is employment policy.

Taking into consideration the branches it had been noted that Polish subsidiaries have the greatest autonomy in food processing (in comparison to machinery industry and plastic industry) with respect to decision making for trade and supply purposes. Slight increase of freedom was noted with relation to subsidiaries operating years (Stępień 2009, p.342). This is confirmed in the development stages of a subsidiary. In the first stages of operation of the subsidiary, after it being established, the dependency on parent company is greater. The head office is the provider of technology as well as organizational solutions. Newly appearing entities are treated as 'fields' of special control. Managerial and sometimes specialist positions are filled in by parent company's own staff. With time good results achieved by the subsidiaries, gathered experience and knowledge by local employees foster granting greater decision making freedom.

In 2003 the author of the elaboration had conducted a survey in thirty randomly chosen foreign companies' subsidiaries manufacturing and selling goods in Poland. The survey included marketing function, its components

5 The author used the following scale: very strong influence of the group - 5; strong - 4; moderate - 3; weak - 2; hardly-noticeable - 1; none - 0.

(marketing research, shaping the product, shaping the prices, shaping the distribution and information impact). The main conclusion drawn from the analysis of collected research data was that at the strategic level all decisions concerning marketing research, the product, prices and manufacturing were made at the parent company. Distribution turned out to be an exception. Despite the fact that in most cases centralization of decisions was dominant, in some subsidiaries strategic decisions about the distribution were taken. Also at the operational level centralization domination over decentralization was recognized. Only in case of distribution, again, the subsidiaries had greater freedom in making decisions. What is more, the subsidiaries execute, above all, elements of marketing function and parent company cope with planning and controlling. Managers, in turn, possess limited freedom when taking marketing decisions (Sobotkiewicz 2005, pp. 150-153). According to B. Haus (2005, p. 489) this state of things can be explained by: lack of trust towards subsidiaries' managers or by absolute desire to promote the interests of shareholders. What is more the author points out that the superior entity has sufficient knowledge to take strategic decisions and some of the operational ones without major errors. This knowledge comes from: knowledge of the international market, monthly reports made by subsidiaries and staff size and skills of the parent entity. Very interesting results from research on the discussed issues gained Cz. Zajac (2012). Conducting research in subsidiaries of foreign companies operating in Poland he observed the following effects of ventures realized among organizational structures of these dependent entities (Zajac 2012, p. 167):

- loss of managing and operational independence causing limitations in decision making for managers as well as constraints for innovation and creativity,
- total elimination or strong restrictions for many organic functions in companies led by subsidiaries,
- parent company interference in strategic and operational management in subsidiaries,
- manufacturing limitations (range of services) and specialization,
- centralization and outsourcing of many functions,
- numerous organizational changes as the effect of leaning, flattening and making organizational structures more flexible.

Concluding the above considerations it is worth quoting the view promulgated by H. Jagoda (2004, p. 623) that the basic trends in the management of complex organizations (economic groups) go through changes in direction of concentration number of organic functions as well as management

centralization. Results presented here allow one to confirm this statement (hypothesis). More thorough study of the subject is obviously needed. Then, it is worth stating the question: what causes this situation? The answer to the question asked this way is not simple, but one can make an attempt to point out number of factors that cause the tendency of centralization of management, and these are (own elaboration):

- computerization (rapid development of information technology and computer software fostering easier flow of information, manufacturing processes steering as well as supporting different levels of organizational structure in decision making),
- organizational unit development in parent companies, improvement in staff's qualifications and competence,
- cooperation (competition as well as cooperation with competitors, creating strong R & D departments in the headquarters of groups),
- specialization (focusing on core branch or relating branches),
- globalization.

The stated factors are of course not the only ones. Research in this area could reveal new not yet identified determinants favoring centralization of management. The results of research presented further (section 4) and obtained by the author fit well with the considerations of centralized systems and are presented here to complement the test results and confirm the current trend towards centralization of management.

4. Heading towards centralization of management - mining sector research results

This section is dedicated to present part of the results after carrying out the research about the range of changes in distribution organic functions in the structure of multi-plant firm in mining sector which belongs to a capital group. The main aim of the research was to recognize the directions of movement of functions in the vertical arrangement over past three years. The answer to the following research question was being searched: What is the direction of organic functions and decision-making powers movement in the structure of multiple economic entity? Years from 2011 to 2013 were subjected to the study. The study consisted of monitoring the changes occurring in the functions displacement. The main research method was direct interview conducted periodically with managers of divisions and headquarters. In addition, the content analysis method was used to source materials. In particular, it includes the organizational

structure of all (three) mines and the headquarters and the organizational regulations. Synthetic test results shown in figure 2.

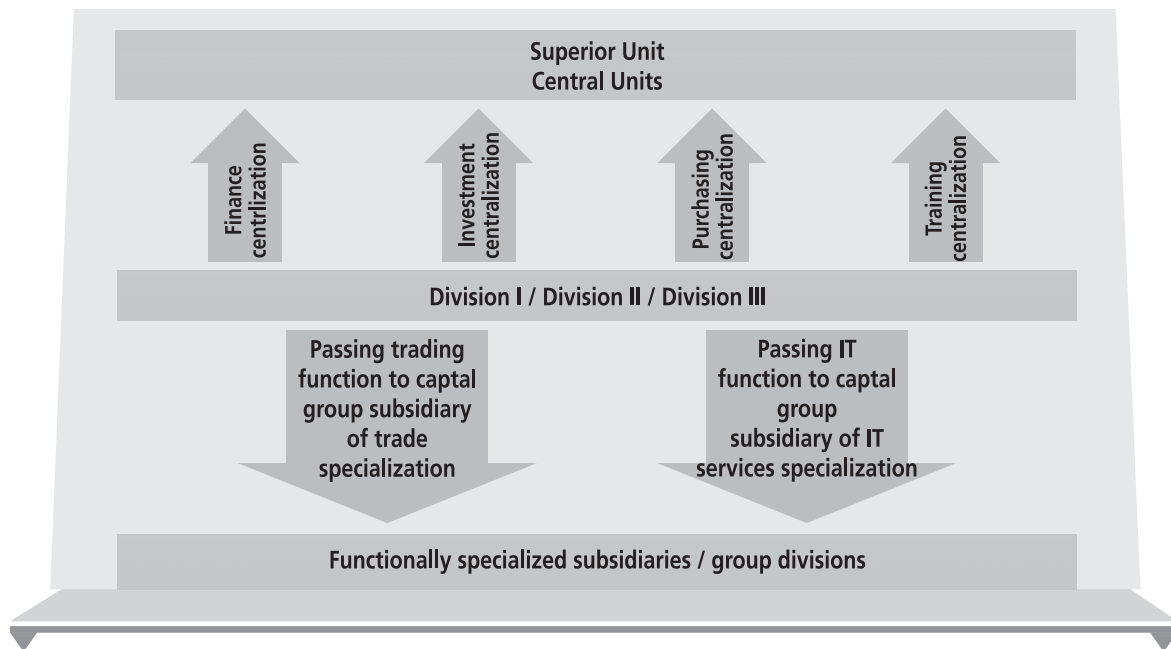


Figure 2. Directions of organic functions movement in the structure of studied multiple economic entity

Source: own study based on conducted research

Analysis of the collected empirical material leads to the following conclusions (own study):

- the tendency to take the whole organic functions or their elements from Divisions and moving them to the headquarters or specialized subsidiaries/ group divisions is present,
- common services centers are created in the superior unit, i.e. accounting services center, central purchasing office, central training services.

They support a range of substantive subordinate plants. This trend can be observed in mining sector. At this point it is worth pointing to similar organizational solution implemented in the Katowice Coal Holding SA, which includes five coal mines. Common services center was established in 2011 to standardize and integrate many of repetitive operational functions, executed independently in Divisions up to that time as well as part

of functions taken from KCH SA Headquarters. The range of centralized functions or sub-functions consist in: accountancy, personnel department with recruitment and social affairs, IT and management of property and property not directly related to production, calculation of salaries and pensions plus employee claims, transportation, Record Archives for all the mines still operating and closed in the past (<http://www.khw.pl/?d=3674>, 03.01.2014),

- placing the functions in the Superior Unit or specialized subsidiaries/group divisions is accompanied by moving the personnel – executors of tasks that make up the content of the functions of those units,
- mines eventually have to specialize primarily in the sphere of production (mining) with strong support from the Superior Unit,
- at the level of Divisions multiple processes of merging organizational units have been reported. Significantly, fewer precipitation of novel units have been reported,
- centralization of functions and powers of decision-making aims at improving the effectiveness and organizational efficiency, eliminate duplication of functions, and, in the long run limit the employment.

To sum up, the results of studies presented in this section, in spite of their general nature, allow to say that there is a tendency to centralize the management for multiple economic entities.

5. Resume

The changes in the organization of multiple economic entities would significantly affect their functioning. Their pace and scope is conditioned by different external and internal factors. As a result, managers make various decisions, including localization changes of organic functions and power of decisions within the organization. In the eighties and nineties of the last century, dominated the tendency to increase the autonomy of subsidiaries. The new functions were relocated, the scope of power of decisions was increasing. Thus, their decision-making autonomy was growing. In the last decade increasing centralization of activities, receiving from subsidiaries their functions and privileges, locating them in the headquarters or functionally specialized business units, is observed more and more frequently. On the one hand, it is confirmed by the results of the researches presented in the management theory, on the other hand, it is confirmed by the results of the research conducted by the author of this elaboration. Therefore, it seems that

only doing “deepen” empirical researches in this issue, will show the current trends in the management of multiple economic entities.

Summary

Contemporary trends in the management of multiple economic entities

The aim of this elaboration is to recognize trends in management of multiple economic entities. The attention was focused on centralized and decentralized management system. This study has a theoretical and empirical character. It is based on the literature studies and the results of researches obtained by the representatives of the scientific community over the past ten years in centralization/decentralization of management in complex economic units. In addition, there are included the latest findings concerning the discussed issue in the mining industry, made by the author of the study. The elaboration demonstrates that the flexibility of the organizational structures of multiple economic entities is diversified and depends on the type of multiple organization. The more flexible structure, the greater tendency to decentralize management. There is also an attempt to define current trends in management of multiple organizations. The study also tries to answer the following research questions: in what direction heads the management of the complex economic units, so-called multiple economic entities? whether there is a tendency for centralization or decentralization of management? whether internal subsidiaries are carrying out ever larger scope of organic functions and decision-making powers or whether it is limited for them?

The elaboration ends with a resume and a bibliography.

Key words: *multiple economic entities, parent unit, subsidiary, organic functions, centralization/ decentralization, flexibility.*

Streszczenie

Współczesne tendencje w zarządzaniu wielocłonowymi podmiotami gospodarczymi

Celem opracowania jest rozpoznanie tendencji w zarządzaniu organizacjami wielocłonowymi. Uwagę skupiono na

scentralizowanym i zdecentralizowanym systemie zarządzania. Opracowanie ma charakter teoretyczno – empiryczny. Bazuje na studiach literaturowych i wynikach badań uzyskanych przez przedstawicieli środowiska naukowego na przestrzeni ostatnich dziesięciu lat w zakresie centralizacji/decentralizacji zarządzania w złożonych organizmach gospodarczych. Dodatkowo zawarto najnowsze wyniki badań Autora opracowania w zakresie poruszanej problematyki w branży górniczej. W opracowaniu wykazano, iż elastyczność struktur organizacyjnych wielocłonowych podmiotów gospodarczych jest zróżnicowana i uzależniona od typu wielocłonowej organizacji. Im bardziej elastyczna struktura tym większa tendencja do decentralizacji zarządzania. Podjęto także próbę określenia aktualnych tendencji w zarządzaniu wielocłonowymi organizacjami. Poszukiwano odpowiedzi na następujące pytania badawcze: w jakim kierunku zmierza zarządzanie dużymi, złożonymi organizmami gospodarczymi tzw. wielocłonowymi podmiotami gospodarczymi ? czy występuje tendencja do centralizacji czy decentralizacji zarządzania? czy wewnętrzne jednostki zależne realizują coraz większy zakres funkcji organicznych i uprawnień decyzyjnych czy też jest on im ograniczany? Opracowanie kończy się podsumowaniem oraz spisem literatury.

Słowa

kluczowe: *Wielocłonowy podmiot gospodarczy, jednostka nadrzędna, jednostka zależna, funkcje organiczne, centralizacja/decentralizacja, elastyczność.*

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