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MULTIPLE ECONOMIC ENTITIES. ESSENCE AND FUNCTIONING. SELECTED ISSUES

Summary. The article focuses on selected issues connected with managing of multiple economic entities. Special attention was paid to the characteristics of these business entities, to the economic benefits resulting from the functioning of such organisms in the global market, and to the subsidiaries in the host country.

Keywords: parent unit, subsidiary, multiple economic entity, home country, host country.

WIELOCZŁONOWE PODMIOTY GOSPODARCZE. ISTOTA I FUNKCJONOWANIE. WYBRANE ZAGADNIENIA

Streszczenie. W artykule skupiono się na wybranych zagadnieniach z zakresu zarządzania wieloczłonowymi podmiotami gospodarczymi. Szczególną uwagę zwrócono na cechy charakteryzujące niniejsze organizmy gospodarcze, na korzyści wynikające z ich funkcjonowania w przestrzeni globalnej oraz na jednostki zależne w krajach goszczących.

Słowa kluczowe: jednostka nadrzędna, jednostka podporządkowana (zależna), wieloczłonowy podmiot gospodarczy, kraj macierzysty, kraj goszczący.

1. Introduction

It is widely known that on the market, apart from small and medium enterprises (SME's) and big economic entities, also huge units exist, with highly complex organization and considerably expanded organizational structure. They function on a vast geographical area, and focus in one economic entity: financial, human and informational resources. These are entities with a multiple structure, consisting of a parent unit, which serves as the center of power and subsidiaries, which serve as implementers of the strategy developed in the parent

unit. In the study, they are called ‘multiple economic entities’. The example of the organizational structure is illustrated below (figure 1).

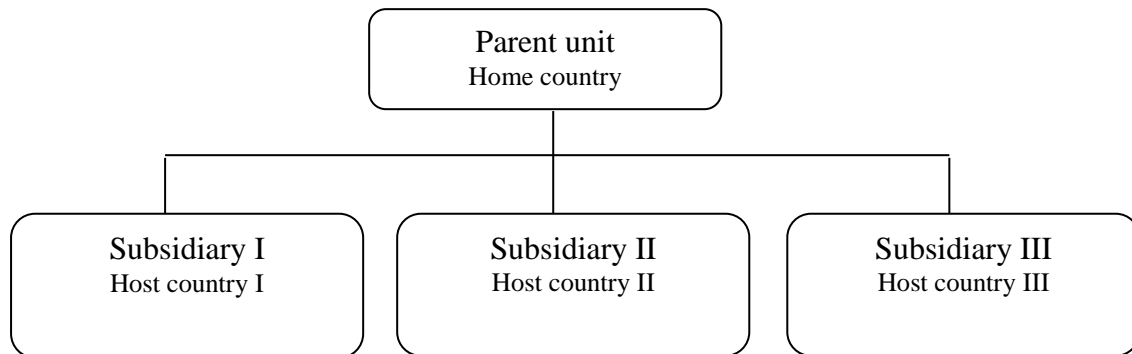


Fig. 1. The organizational structure of a multiple economic entity

Rys. 1. Hipotetyczna struktura organizacyjna wieloczłonowego podmiotu gospodarczego

Source: own elaboration.

The aim of the survey is to show the potential, measurable benefits from the functioning of multiple economic entities in the global environment (international environment).

All considerations presented in this article are based on the analysis of the subject literature. They are also the result of observations of economic practice, including in particular the operation of large, complex economic entities in the country and abroad.

2. Multiple economic entity – characteristics

Predominantly, large and complex economic entities are the result of companies' evolution. Some of them are increasing, diversifying their business, generally speaking they are developing, and others show stagnation in growth or simply collapse over time. Increasing the size of the organization and the degree of diversification makes difficult to manage a typical enterprise. Then, one of the activities is an establishment of the new business units with different business profiles. It creates economic entities with the multiple structure where the center of power is located in the parent unit and the operational sphere in subsidiaries. Taking into consideration the degree of diversification of the organization and its size, three stages of the enterprise's evolution can be distinguished (figure 2). The example of a multiple economic entity which is shown below, is the most advanced form of economic activity and in the same time, the last stage of a typical enterprise's evolution.

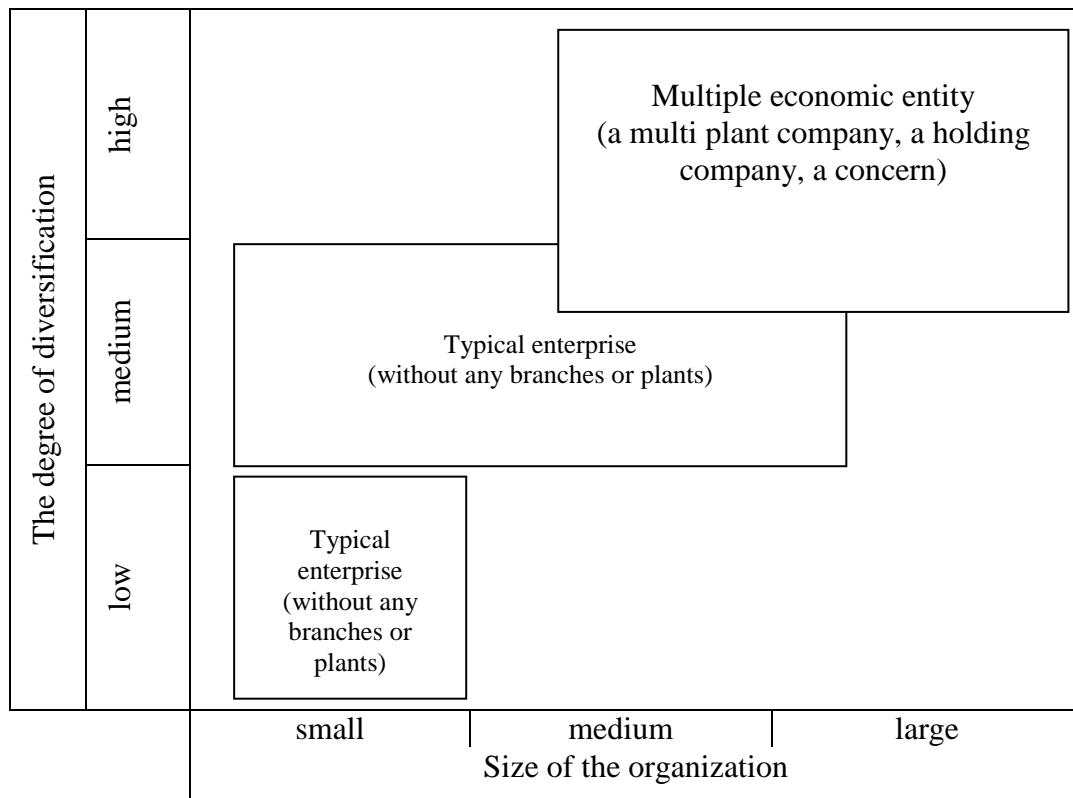


Fig. 2. Stages of enterprise's evolution
 Rys. 2. Etapy ewolucji przedsiębiorstwa
 Source: own elaboration.

Considering the distinctive features of a multiple economic entity, the main ones can be pointed. They are as follows:

- parent unit is a separate center of power. It can be a limited company (*e.g.* a limited liability company, a joint stock company), the enterprise, other legal entity or a natural person,
- a multiple economic entity is a concern, a holding company and a multi-plant enterprise,
- depending on the type of a multiple entity, internal legal autonomy level of business entities is variously formed. And so, in a concern and a holding company internal entities usually have legal personality, especially in case of limited companies. However, a concern and a holding company as a whole do not have a legal personality. Nevertheless, in multi-plant enterprises, separate plants do not have a legal personality, the whole enterprise has it,
- subsidiaries are subordinated to the parent units, and they can be the centers of power for the entities subordinate to them. Therefore, we have to deal with a multi-level structure (a parent unit – subsidiaries – subordinate entities (*i.e.* ‘granddaughters companies’)),

- subordinate entities have a diverse range of economic independence. In the case of subsidiaries in the form of limited companies, their economic independence (connected with decision-making processes) is basically larger than the internal entities with a different organizational and legal status,
- internal business entities may be either investment centers, profit centers, or cost centers. The most often are profit centers,
- internal business entities cooperate with each other, within the inter-organizational groups in the research and development field, procurement, sales, marketing, and investing activities,
- internal business entities (subsidiaries) compete for new projects, resources, and markets,
- far-reaching geographical expansion (in the home country and the host countries).

The above mentioned characteristics of multiple economic entities indicate that they are large units, which possess the financial resources and considerable bargaining position on both markets: geographic market and product market. They are a significant threat for the functioning of smaller economic entities.

Functioning of the complex business entities in Poland is illustrated by the research of capital groups in Poland which were carried out by the Central Statistical Office. They show that in 2008 in Poland there were 1462 groups of related companies, in 2001 - 1951, and in 2013 - 2049. This clearly reflects the trend towards concentration of business activity in multiple economic entities.

In 2011, among 1951 identified groups of related companies, 38.6% were so called 'truncated groups'¹ under the control of a foreign capital (754), for which the parent entities of the highest level had their offices abroad (in total in 43 countries); including 70.2% in the European Union countries – mostly in Germany (16.4%), the Netherlands (10.0%), France (7.8%) and Luxembourg (7.5%). Among foreign parent entities of the highest level which are not located in the European Union, the highest percentage (11.4%) constituted entities based in the United States [17].

¹ A truncated group under the control of a foreign capital means that part of an international group, which is located in one country, and which is headed by a national indirect parent entity, and which is also dependent of a foreign entity.

3. Multiple economic entity – benefits from functioning in a global environment

According to Nogalski, the problem of creation, functioning and management of such economic entities, is determined by the following conditions:

- the process of globalization, resulting in a process of consolidation,
- type of development processes taking place in a given sector or a segment of the market, which affects the strategies used to create holding companies,
- expectations towards owned organizations, realized by the investors (owners), which affect the strategies used in the functioning of holding companies [9, s. 67].

This part of the study will be focused on globalization as an important factor of contributing to the development of multiple economic entities. Undoubtedly, a characteristic feature of the contemporary development of the world's economy is deepening internationalization process² and transition to a higher stage, stage of globalization. This means an increase in number and intensity of economic relationships between countries and their regional groupings and enterprises [13, p. 11]. According to Starr [14], for some of the market participants, globalization is associated with an opportunity of development and growth in profits; for others it is connected with a high risk, uncertainty, market volatility, sudden changes, and increase in unemployment. In the literature – especially English – the authors point out that the biggest progress of the globalization process has been made in the economic sphere [5, p. XV; 3, p. 4], the consequence of which was the rising of the world economy (global economy). The process of globalization has had a significant impact on the functioning of enterprises, because in recent years under its influence, economic concentration processes have intensified and they last to this day. What is more, they consist of concentrating on one economic entity of increasing physical and financial resources which are necessary to conduct business on a very large scale all over the world. It can be even said that so large multiple economic entities are arising, that its geographical coverage encompasses almost the entire world. They build its competitive advantage by using local resources, *e.g.* access to the cheap and qualified engineering - managerial personnel and to the attractive prices of raw materials. In the literature, it is emphasized that international multiple economic entities have a competitive advantage in relation to domestic companies, as follows [2, 6]:

- access to raw materials in different countries,
- access to the market by avoiding customs barriers and other import restrictions,
- using a cheap labor in countries with lower levels of development and transferring production to those countries,

² The internationalization of business activities leads to the creation of new subsidiaries outside the home country of the parent entity in various countries, which are known mostly as the host countries.

- obtaining the benefits of large-scale production and diversification of production,
- disposition of large financial resources, with the possibility of allocating them for research and development projects, including innovations. It should be noted that large economic entities create the necessary infrastructure for innovative projects³. They expand departments, in which the function of research and development is carried out, increasing the innovation of the regions.

Kaczmarczyk pays attention to the positive impact of multinational enterprises on the economy of the host countries. According to the author, the most important advantages of the activities of multinational companies are as follows [7, s. 536]:

- encouraging local enterprises to a greater efficiency and competitiveness through the introduction of the modern management methods,
- creation of new jobs,
- development of new sectors of economy,
- transfer of the new technology and modern management,
- escalation of export,
- creation of a new source of budget revenue and improvement in balance of payments.

Significant benefits can be found also at the level of multiple economic entities. According to Czupiał, the development of subsidiaries in the host countries forces parent entities to performing management functions across national borders, under different economic, technological, legal, and cultural conditions [4, p.16]. Therefore, it comes to acquiring the knowledge about the foreign environment (including global environment) in which subsidiaries are present. The process of gaining and storing knowledge about new markets and competition arises.

4. Subsidiaries outside the home country (in the host countries)

At the beginning, it is worth to mention about the function of subsidiaries in the host country. Brikshaw and Hood indicate that this role may relate to [1]:

- production and sales of goods in the local market,
- learning of the local markets, gaining experience and transferring it to the headquarters,
- participation in the local investing community,
- being an active participant in the regional development.

It is also worth noting that the subsidiaries in the host country act as a manufacturer of components for internal needs of business entities. They are an important part of a production chain. As the example, we can point here foreign companies from the automotive industry,

³ See more: [10, p. 637-656].

which produce various car components. They are important providers of those components to the parent assembly plants in different regions of the world. Thus, their scope of activity which is not related to the demand of the local market may restrict the participation of managers in the economic life of the local environment.

The subsidiary located outside the home country of the parent unit commonly adopts the form of the assembly plant, production plant, service or trade plant. At the beginning of its activity, range of functions is limited⁴. In the case of a production plant, which in the start-up phase fulfills the largest extend of functions, the parent entity engages the biggest financial expenses. These are means devoted not only to the fixed assets but also to the intellectual ones, including the education and personnel training. In the start-up phase the production plant is supported by a superior unit, the other subsidiaries or by specialized external companies. Development of a subsidiary, to a large extent, depends on the company's headquarters, which on the one hand can support it, and on the other inhibit. What we should remember is the fact that headquarters are guided by the interests of the whole multiple economic entity. Thus, they can slow down the development processes of the subsidiaries, if they infringe the interest of the grouped entities. Hence, the unique skills and competencies acquired by the local managers may have a positive influence on the headquarters' decisions for further development of subsidiaries. According to Róžański, factors that stimulate and facilitate the development of subsidiaries in the host country are the following [12, p. 17-20]:

- modern engineering and technology which are available by the parent company,
- use of modern organizational solutions,
- huge possibilities of financing company projects,
- favourable situation on the local market (no competition or its weakness, a large potential demand),
- creation exceptionally favorable conditions for the operation of foreign entities by the host country,
- having efficient managers, delegated from the headquarters.

Selection of a country in which the subsidiary should be located is one of the most significant decisions taken by the parent entity. Thereafter, also very important is the process of creation by the host country the right conditions for the functioning of the new entrants. Interesting results of the research were presented in 2001 by Karaszewski. He has conducted a survey among 151 enterprises on the subject of "Determinants of the development of companies with a foreign capital in Poland". The results of the research have shown that commitment, qualifications and competence of employees at the highest level are the most important factors which positively contribute to the development of the enterprises. Foreign capital arose from the purchase of an existing enterprise and as a result of the purchase of shares in a limited liability company or shares in a joint stock company. The main factors

⁴ Usually it is connected with supply, production, maintenance, quality control, personnel, and accounting.

which negatively affect the development of companies with a foreign capital were also recognized – tax system, customs policy, a policy of exchange rates, law regulations, effectiveness of the law enforcement and existence of the black economy [8, s. 29-33]. It should be stressed that the development of subsidiaries manifested in increasing the scale of production has often reflection in enhancement of the employment, which consequently alleviates the negative effects of unemployment in the local environment.

Over time, newly created subsidiaries turn into units of a larger size, they perform more and more functions – atomization trends begin to occur. Moreover, they can take the role of a superior unit in case of opening their plants in the same country or beyond its borders.

The host countries may also have problems of a personal nature. According to Zajac, the most common personal problems in the international capital groups include: problems with assimilation of the expatriates, “corporate cynicism”, the phenomenon of polyarchy, job insecurity, and the stress of managers and employees which is a result of the multicultural character of their working environment [16, s. 71-78]. Advantages and disadvantages of employing the executives from the home country of the parent entity are presented in the table 1.

Table 1

Advantages and disadvantages of employing the executives from
the home country of the parent unit

Managers of the home country	
Advantages for the branch	Disadvantages for the branch
– provide cultural homogeneity, as managers come from the dominant culture of the parent entity;	– problems with adapting to the local culture;
– help the parent entity to transfer its best commercial practice patterns and habits to the foreign branches;	– language problems;
– strengthen the control and coordination of foreign activities by the parent entity;	– employment of foreigners is usually more expensive than local managers;
– provide the group of managers with international experience;	– negative impact on the morale and motivation of local managers who realize that more important jobs are reserved for citizens from the country of the parent entity;
– strengthen the international orientation of the parent entity.	– personal and family problems (separation).

Source: [15, s. 165-166].

As mentioned by Przytula [11, s. 67], in order to mitigate conflicts which may arise on the line a parent unit – a subsidiary, an international manager should present a range of qualifications specifically required in management on a global scale, but also should reveal the typical features for the culture of the country from which he derives.

5. Summary

Detailed analysis of the literature and observation of all business practices entitle to some basic conclusions:

- Multiple economic entities are economic units, which inner subsidiaries conduct business in their home country and abroad. The location of the business units in the host countries provides measurable benefits for the whole multiple organizations. In case of Poland, it is the access to the qualified engineering – managerial personnel, cheaper labor, tax reliefs (in case of Special Economic Zones).
- Multiple economic entities more and more often open service entities as business centers, so called Shared Services Centers. They provide, inter alia, financial services, sales and marketing services for all internal units regardless of where they are. Creation of business centers for geographically distributed units of the group is possible thanks to the dynamic growth of the Internet and information technologies. Global Shared Services Centers have supranational knowledge and conduce the creation of a business culture based on the global values.
- Location the new entity in the host country promotes the generation of knowledge about customers, competition, and the business climate.
- Opening the new business units in the host countries gives possibility of coming into existence the new markets. It is very important because conducting the business from the home country does not always provide the expected benefits. Hence, it is better to occur directly on foreign markets. As an example, we can add here the capital group “CCC”, which dynamically expands its sales network by locating their trading companies in the countries of Central – Eastern Europe.
- Host countries may affect the development of the foreign companies (subsidiaries) which are located in their area. However, they must create appropriate legal and economic conditions. The extended period of functioning the Special Economic Zones in Poland till 2026 is one of such positive examples.

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Omówienie

W przestrzeni gospodarczej obok jednolitych (zwartych) przedsiębiorstw funkcjonują organizmy bardziej złożone, o strukturze wielopodmiotowej, składające się z jednostki nadrzędnej i z jednostek podporządkowanych (tzw. wieloczłonowe podmioty gospodarcze). Niniejsze organizmy, w porównaniu do typowych przedsiębiorstw, charakteryzują się znacznie rozbudowaną strukturą organizacyjną, prowadzą działalność na rozległym obszarze geograficznym, skupiają w jednym organizmie gospodarczym coraz większe zasoby finansowe, rzeczowe, informacyjne i ludzkie. Dodatkowo mają znaczną siłę przetargową zarówno na rynkach geograficznych, jak i produktowych. Globalizacja ujmowana jest jako jeden z czynników stymulujących rozwój tak dużych i złożonych organizmów gospodarczych. Sprzyja ona otwieraniu nowych jednostek gospodarczych w tych krajach, które dysponują dostępem do tanich zasobów czy też rynków zbytu. Obok podmiotów typowo produkcyjnych, handlowych, coraz częściej niniejsze jednostki przyjmują postać centrów biznesowych, tzw. Centrów Usług Wspólnych. Centra te świadczą m.in. usługi finansowe, sprzedażowe czy marketingowe na rzecz wszystkich jednostek wewnętrznych grupy, bez względu na miejsce ich lokalizacji. Celem opracowania było wskazanie na potencjalne, wymierne korzyści z funkcjonowania wieloczłonowych podmiotów gospodarczych w środowisku globalnym (międzynarodowym).