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**Changes in placing  
organic functions  
in structure of German  
concern subsidiary – case  
study**

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**1. Introduction**

Structures of modern multi-entity enterprise<sup>1</sup> undergo constant changes due to processes like diversification of activities, mergers, acquisitions or in the way of practising new ideas and methods for management (e.g. outsourcing, lean management). This results in moving organic functions (and their subfunctions) in structure towards not only:

- centralization or decentralization of a function,
- joining or separating a function,
- outsourcing or insourcing of a function,
- extracting and localizing new functions or cancelling some functions.

There is no doubt that localization changes of organic functions are actual and very important, especially in times of constant changes in the multi-entity enterprise environment. Such changes can have positive or negative and hard to foresee effects. It is not easy to see the advantages of changes

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1 As J. Koziński states multi-entity enterprise consists in Parent unit and subsidiaries that vary in legal and economic status and creates one enterprise with its goals and code of conduct coming from the headquarters (Kozinski 1996). Multi-entity enterprise is a holding, a concern or a business with many branches.

in changeable and even turbulent environment. Those changes are easier to observe in longer term especially when one consider wide range of functions. Therefore any changes on this ground should be preceded with comprehensive analysis. Shifting functions n vertical and horizontal layout leads to modifying structures within organization of departments, which consequently modifies the whole enterprise. The size of subsidiary's basic organizational units, their level of autonomy and number of human resources change.

This work is to present directions of changes in placing organic functions and identifying factors causing those changes with respect to German concern subsidiary.

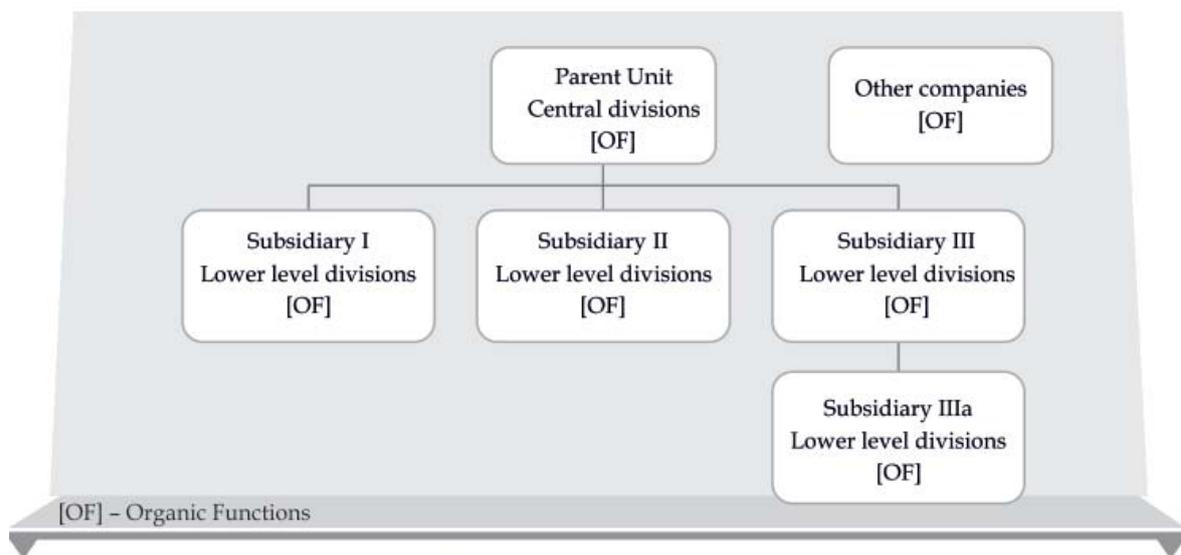
The aim of the research was to recognise changes that took place in a German subsidiary , operating at Legnica Special Economic Zone, with respect to placing organic functions. With the aim set the following questions became relevant: What were the directions of changes in placing organic functions and what factors caused the changes? To answer these questions primary study as well as secondary study were performed. The 2008-2012 organizational structure was analysed first. Next, the director of the subsidiary, who has been running it since the very creation in 2003, was interviewed. This order of research conduct allowed to analyse the problem in deep and explain any doubts or ambiguities when analysing company's structure, which caused shifting the functions.

Researched company specialises in production of components, modules and systems of plastic for automotive business purposes. Its recipients are automotive concerns like Volkswagen, Mercedes or BMW. Researched company's development is in progress. The company employs more and more employees. Discussed company is looking for new projects. This constant development is possible thanks to its parent unit's positive performance assessment. Operator can be considered as large industrial plant.

## **2. Direction of changes in placing organic functions in multi-entity enterprise structure**

Written sources define organic functions as relatively lasting actions, realized by the economic organism to gain a certain state (Kozinski 1996). Each inner entity, despite the fact being part of a larger entity, has its core business which sets necessary set of functions to be realized. Among them one can mention service functions (support), which focus on handling basic function set either to production or sale or to providing services. More functions localized in subsidiary's structure lead to increasing its significance and thus inner autonomy

in comparison to other subsidiaries. Research shows the fact of changes in both structure and organization in range of different functions realized at the level of subsidiaries. Distinctive is that parent units tend to limit realization of many organic functions within their subsidiaries and tendency to centralize and outsource many of these (Jagoda 2004, Zajac 2012). In case of multi-entity enterprise, what is more organisms with extended and complex organizational structure the tasks, that consist in functions' content, can be localized in either parent unit's divisions or its subsidiaries as well as among other companies. Hypothetical localization of functions is depicted in picture 1.



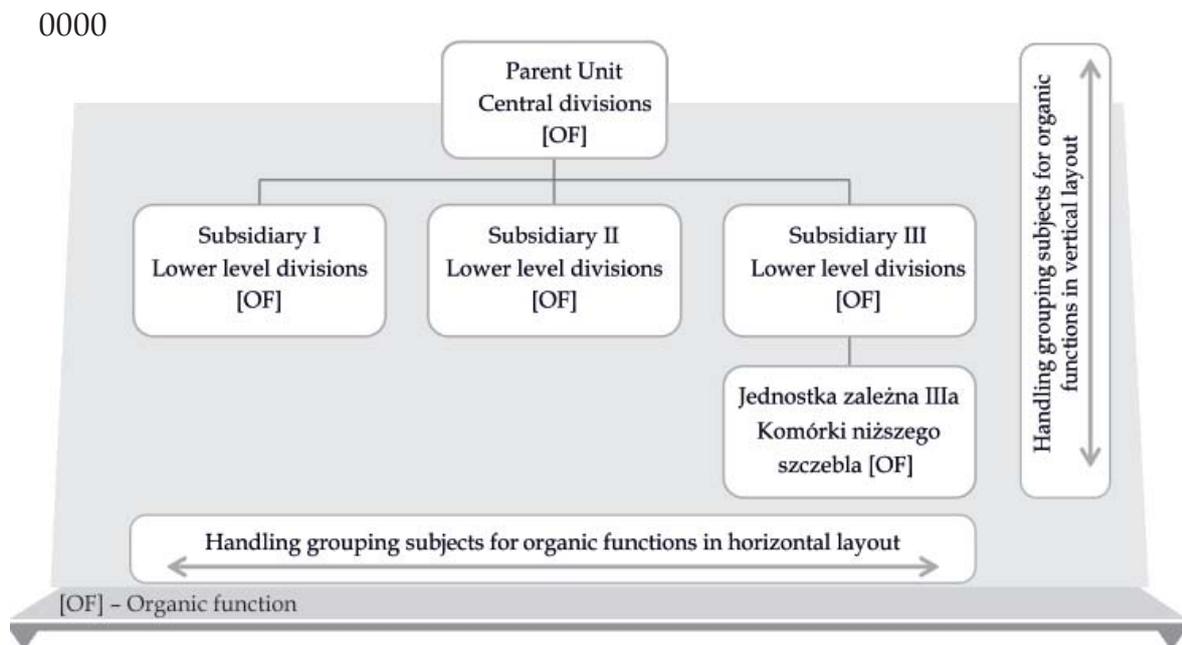
**Picture 1. Possible localization of Organic Functions**

Source: own study

One may come to the conclusion that in range of individual organic functions divisions can support one another, providing services to one another and finally be serviced by parent unit. Relationships are presented in picture 2.

Inner divisions of economic organism specializing in production can mutually provide services and support in terms of service functions as follows: staff, finance, marketing, sale or purchasing. The decision to localize a function, e.g. marketing function, only in one of the subsidiaries which sells goods produced by it to outside market means giving support to other subsidiaries in this matter. The same may happen when it comes to staff. Localization of this function only at parent unit means high concentration, centralization and handling staff

centrally. Very important matter that is correlated with the thesis is the problem of choosing localization for handling given function. Nevertheless, this matter will not be discussed in this paper. The quality and accuracy of decisions taken in this matter depend on the choice of placing the function to be handled and this fact is worth noticing.



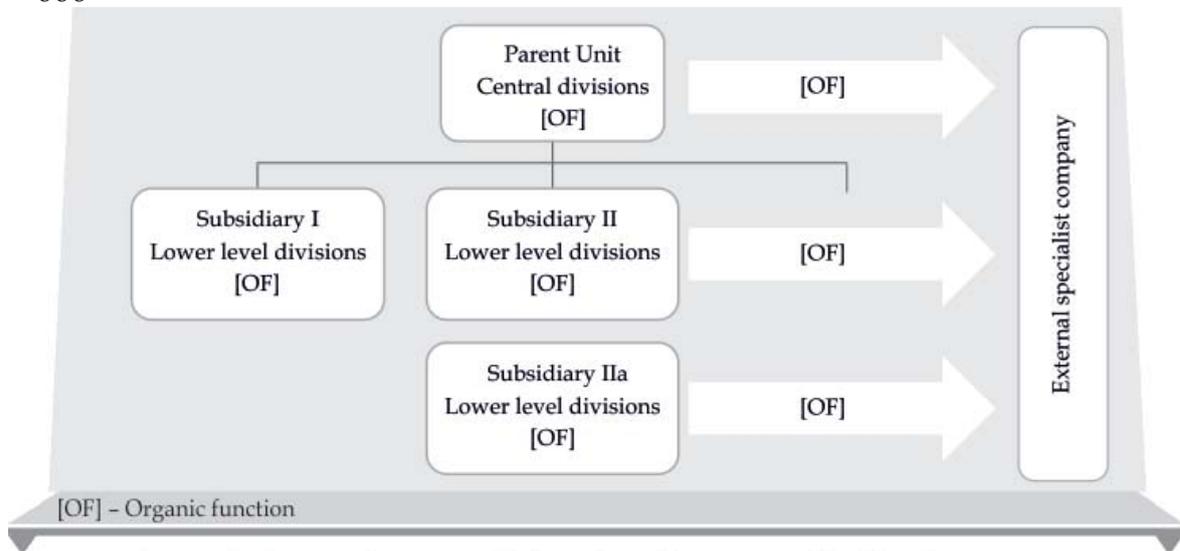
**Picture 2. Possible directions of mutual support in range of organic functions**

Source: own study

In long term functions can be transformed. It is fostered by merging or separating, centralization or decentralization of functions, gaining importance by some of the functions and decline of others and finally by outsourcing and insourcing. These processes taking place as any other can result in changes of placing organic functions in parent unit or subsidiaries. These shifts are far more visible and take place more often in multi-entity enterprises than at small- and medium- size companies.

Carried out literature studies and surveying Polish and foreign enterprises show that changes in placing functions can go in two directions. Their graphics representations are pictures from 3 to 10. Contract outsourcing to realize individual functions (or their subfunctions) is shown in picture 3.

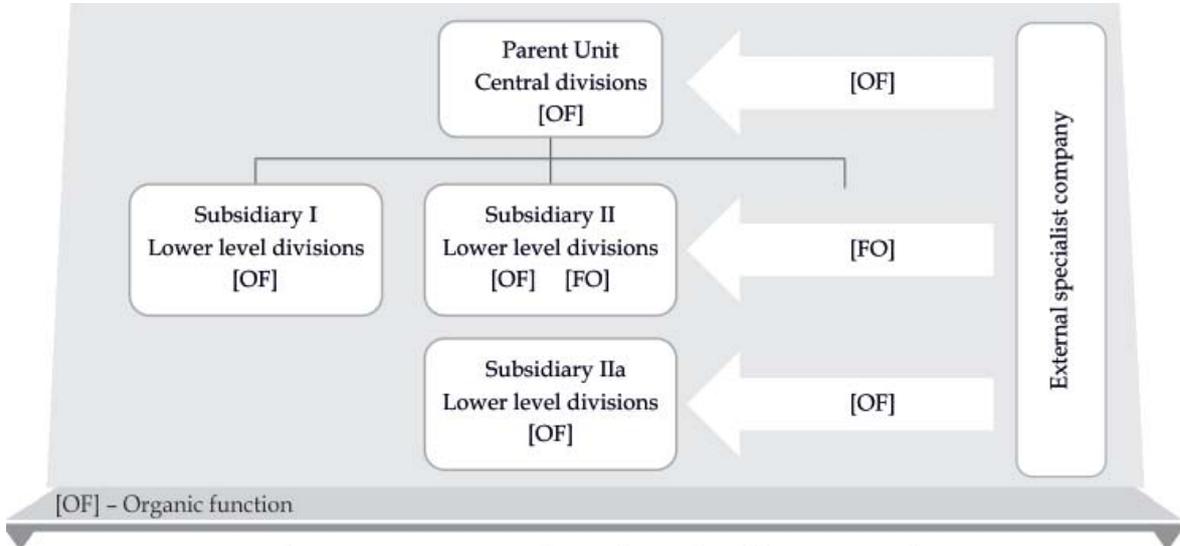
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**Picture 3. Separating organic functions from organizational structure of multi-entity enterprise and passing their handling to external specialist company**

Source: own study

Using insourcing for organic functions (or their subfunctions) presents picture 4.

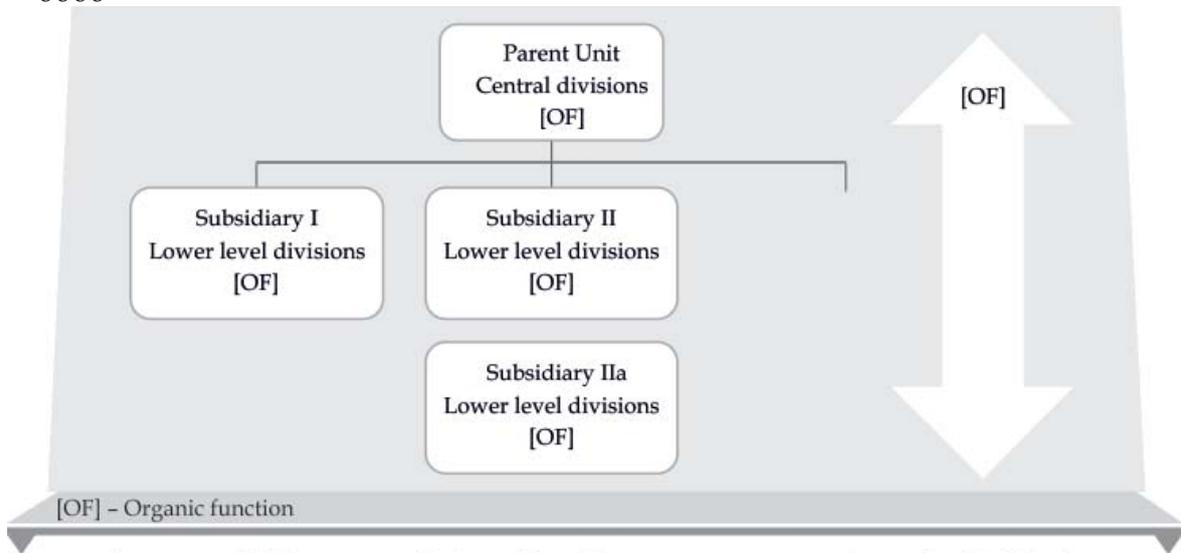


**Picture 4. Incorporation of previously separated organic functions to organizational structure of multi-entity enterprise**

Source: own study



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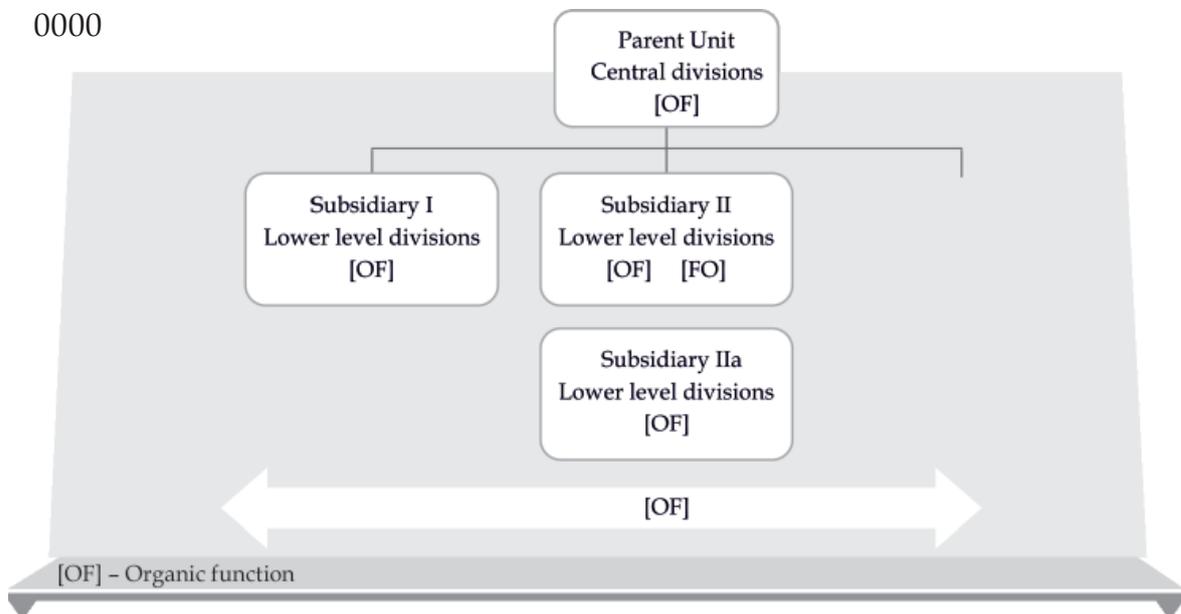


**Picture 6. Shifting organic functions between parent unit and subsidiaries**

Source: own study

Possible to occur concentration/ deconcentration function (or subfunction) processes presents picture 7.

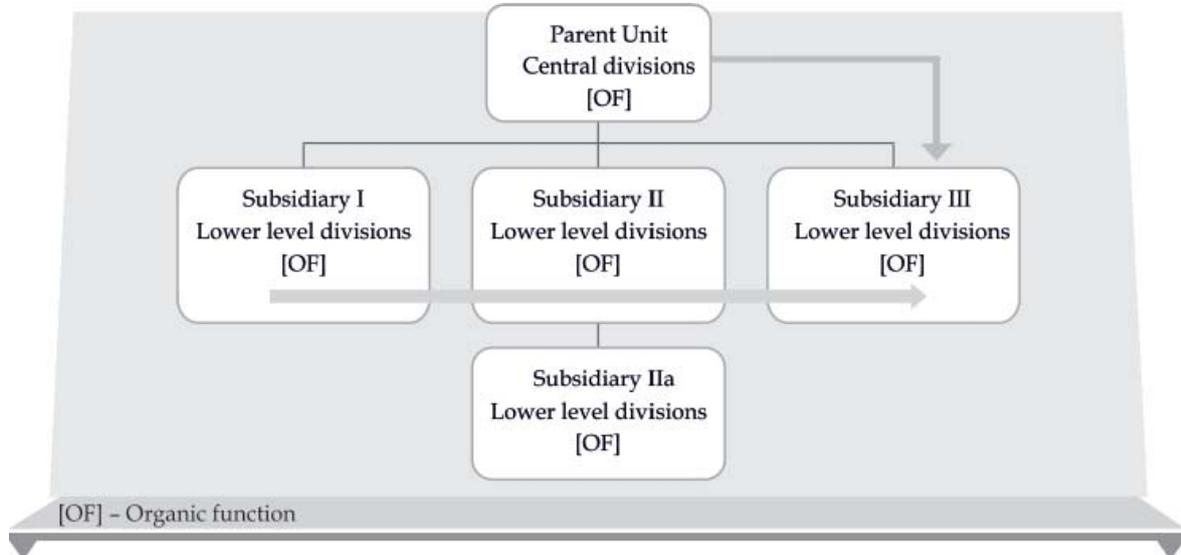
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**Picture 7. Shifting organic functions between subsidiaries**

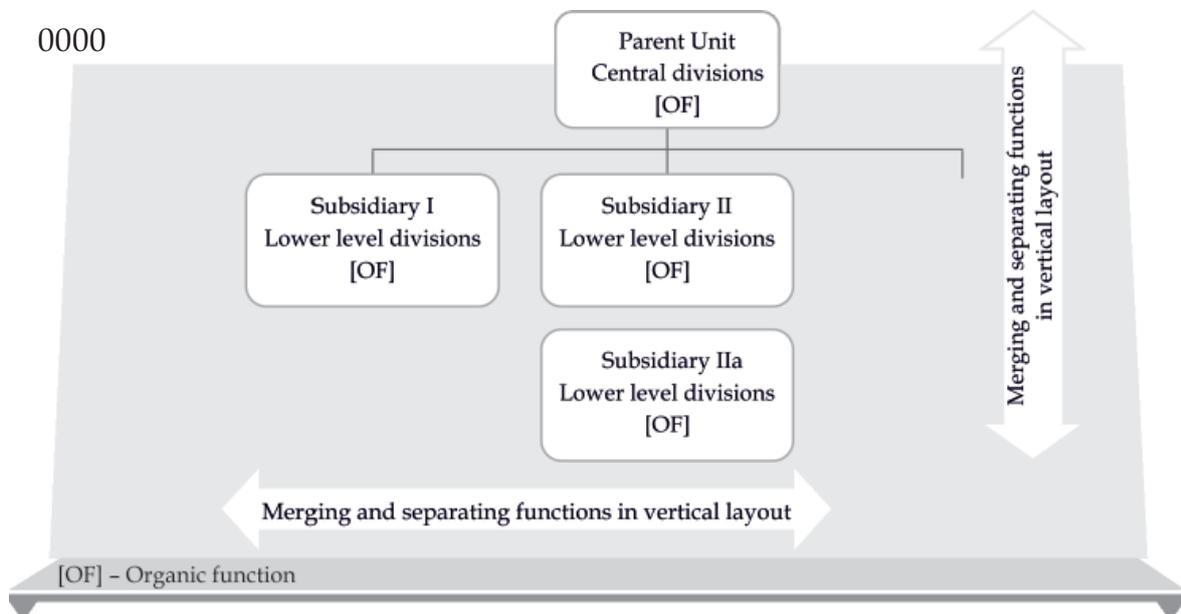
Source: own study

Shifting organic functions (or subfunctions) to newly created entity through capital outsourcing presents picture 8.



**Picture 8. Shifting organic functions to newly created entity in structures of multi-entity enterprise**

Source: own study



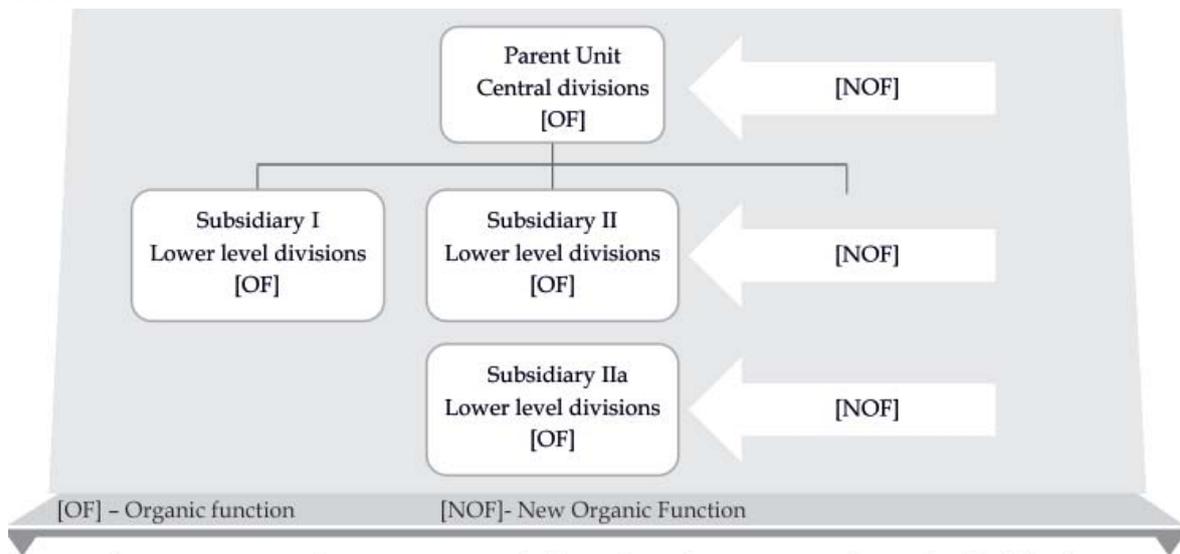
**Picture 9. Merging and separating organic functions**

Source: own study

Changes in placing the functions due to merging and separating them in horizontal and vertical layout presents picture 9.

Separating new organic functions (or subfunctions) in the structure of individual grouping divisions presents picture 10.

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**Picture 10. Locating new organic functions in parent unit and subsidiaries**

Source: own study

Possible changes presented in the pictures above constantly take place, at the same time or one by one. They increase in strength or weaken. They affect range, dynamism and level of change in organizational structure of an economic organism and its subsidiaries. Those changes take into account:

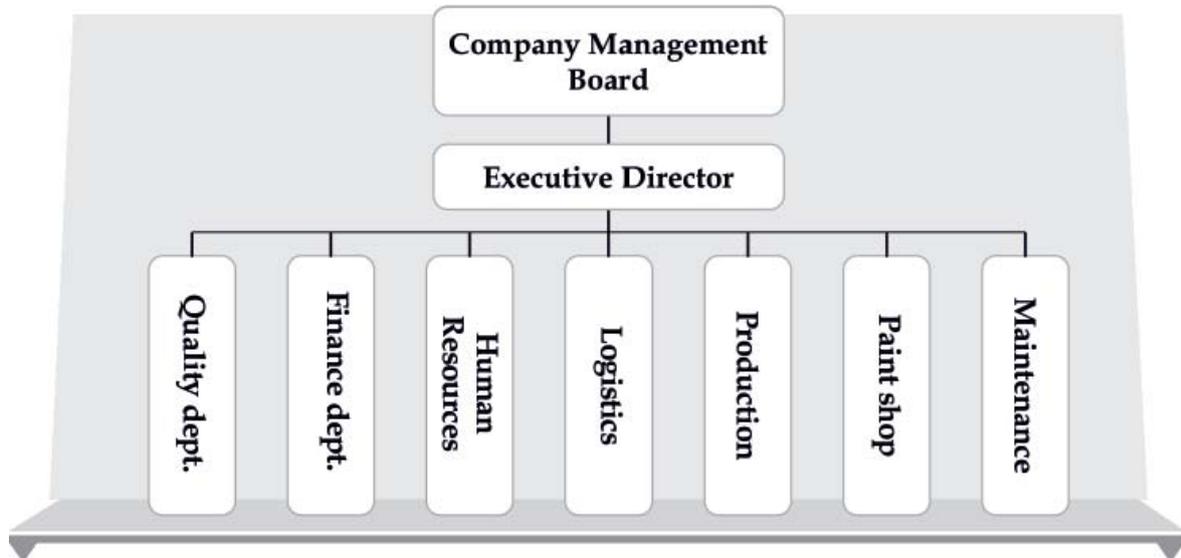
- the number and quality of human resources (qualifications, abilities),
- size of organizational units such as divisions, departments, organizational divisions (closing or flattening, creating new),
- executive power of managers (more autonomy or limited autonomy),
- level of subsidiaries' autonomy (increasing or decreasing),
- management systems (evolving towards management centralization or decentralization).

### 3. Research results

In this part of the elaboration research results for the analysis of company's organizational structure based on data for 2008-2012 and the factors causing the

changes, identified while interviewing subsidiary's director, are presented. First the structure from 2008 was analysed and it is shown in picture 11 contrasted with next ones, including the newest for 2012.

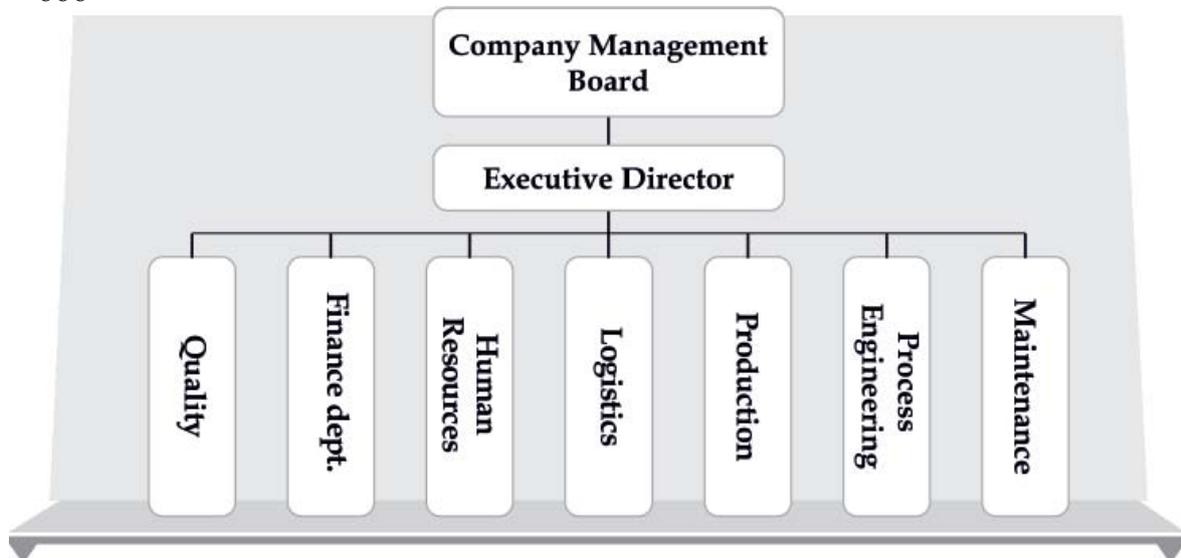
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**Picture 11. Organizational structure in researched subsidiary in 2008**

Source: own elaboration based on research performed

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**Picture 12. Organizational structure in researched subsidiary in 2012**

Source: own elaboration based on research performed

In 2008, among organic functions present in the organization basic function could be specified – meaning production. Furthermore service functions: quality, staff, finance, logistics, maintenance were present. Paint shop is a part of production process, thus this paper includes it as a part of production process. The newest, yet unchanged, organizational structure presents picture 12.

#### 4. Conclusions:

1. Within personal function tasks aiming at administrating staff is handled with. Divisions' supervisors are responsible for planning training courses for their staff and analysing their qualification development and directions for work-related matters improvement. Central unit handles personal strategy policy and creates staff policy. The researched subsidiary does not develop functions in this topic.
2. The following tasks were observed in logistics function: stock, acceptance of goods, shipments, production planning for all areas including moulding machines, assembly line, lamination and paint shop. Locating the subfunction production planning in logistics was due to focusing on the final client philosophy. Logistics staff is in contact with the clients so a conclusion was drawn that it could have been easier to plan production. But this did not work properly due to interferences of competence between logistics and planning departments. This was due to inaccurate production volumes planned. Factors like holiday plan affected deadlines. Production planning function has been shifted to production division. Mainly this was because of increasing responsibility for planning processes among production services. Thanks to that the process became efficient and no further interferences took place. Production staff has access to production function data and can easily adapt to situation. This change did good for the organization.
3. When it comes to production function itself it underwent reorganization. Not only production planning was shifted but also paint shop tasks. These had been outsourced from a German specialist company since 2008. Painting plastic elements was let to it by the central unit. Later painted parts were shipped to Poland where components were assembled. Because painting is very complex process and can be affected by the quality of components, there were many complaints or claims unfairly charging the researched company. It was hard to point who should take full responsibility for the faults as there were many contractors involved in the process. That is why the company

decided about opening paint shop. Another motive of such action was to provide thorough complaint service without looking for contractor to blame. The third reason was total cost of dealing with complaints. Thus insourcing function started and led to creation of paint shop.

4. To support production processes within the company engineering process specialist post was created. At first it was limited to production function only. Eventually, a new division was created namely engineering process. Due to its importance it was localised at the level of other important organic functions. Its interdisciplinary character was to stress the new approach to managing the organization with respect to processes. Within this division Lean Manufacturing area was separated. What is more its staff took part in creating the project from the very beginning in central unit. The company had only performing role before thus could not influence any decisions. Yet, with the structure appearing awareness problems occurred. To omit this staff's attitude to process awareness had to be changed.
5. The company's development towards offering new products for maintenance function led to separating cast building maintenance subfunction in 2012. In the same year assembly line maintenance and paint shop subfunctions were merged. This was caused by cost pressure, increasing efficiency and work flexibility as well as using staff accurately.
6. In 2012 information technology function was separated but it is still strongly centralised. The parent unit provides IT support.
7. Other functions were not changed.

## 5. Recapitulation

There is no doubt that designing organizational structure and modifying it should be preceded by thorough analysis of placing organic functions. The theoretical assumptions about relocating organic functions in multi-entity enterprise's organizational structure presented in this work were verified empirically. On the example of German concern's subsidiary the elaboration attempts to show that in long term shifting placing organic functions can be observed. The analysis focuses on the last four years of company's activities. The research shows that within the structure of researched company the following processes took place:

- merging earlier separated subfunctions back to subsidiary's organizational structure
- shifting subfunctions between subsidiary's organizational divisions

- shifting subfunctions between parent unit and subsidiary
- merging and separating organic functions.

These processes were affected by factors defined during the interview with executive director of subsidiary. Few to be mentioned: effective use of human factor, cutting the costs, assuring the quality of the product, assuring the quality of production process, limiting organizational interferences leading to conflicts, increasing efficiency and work performance. The author is aware of the fact that presented conclusions, based on the content provided by empirical research, do not discuss in details problems connected with the topic. The author's intention was to point out that this problem is very important, especially in context of changes in multi-entity enterprises which affect organizational structure and can cause changes in designing those structures.

## Summary

### **Changes in placing organic functions in structure of German concern subsidiary**

This work focuses on changes in placing organic functions in organizational structure multi-entity enterprise. This problem is important, still up-to-date, especially in face of quick changes taking place in modern organizations' surroundings. This work aims at recognition of directions of changes in placing organic functions and identification of factors causing those changes taking as an example a German concern subsidiary. The theoretical part focuses on defining main change directions in placing functions. Great attention is paid to presenting different varieties of function shifts in economic organism. The empirical part deals with identification of changes that took place in placing functions and identifying the factors causing those changes. Due to the conducted studies, one can come to the conclusion that the main directions for changes in placing functions in surveyed subsidiary was relocating the subfunctions within its units and master organization. What is more joining and dividing functions took place. These processes were influenced by the following factors: more effective use of human resources, cutting costs, paying attention to final production process, limiting organizational conflicts and improving both effectiveness and efficiency of labour. The elaboration finishes with a summary which clearly states conclusions drawn from research results.

**Keywords:** *Parent unit, subsidiary, organic functions, subfunctions, function localisation/placement.*

### **Streszczenie**

#### **Zmiany w rozmieszczeniu funkcji organicznych w strukturze spółki zależnej niemieckiego koncernu**

Przedmiotem zainteresowania autora w opracowaniu są zmiany w rozmieszczeniu funkcji organicznych w strukturze wielocłonowego podmiotu gospodarczego. Problem ten jest ważny, stale aktualny, zwłaszcza w dobie szybko zachodzących zmian w otoczeniu współczesnych organizacji. Celem opracowania jest rozpoznanie kierunków zmian w rozmieszczeniu funkcji organicznych oraz identyfikacja czynników wywołujących te zmiany na przykładzie spółki niemieckiej zależnego koncernu. W części teoretycznej opracowania zdefiniowano główne kierunki zmian w rozmieszczeniu funkcji. Szczególną uwagę i dużo miejsca poświęcono tu na przedstawienie różnych wariantów przemieszczania funkcji w strukturze organizmu gospodarczego. W części empirycznej natomiast podjęto próbę identyfikacji zmian jakie zaszły w rozmieszczeniu funkcji oraz rozpoznania czynników wywołujących te zmiany. W wyniku przeprowadzonych badań stwierdzono, iż głównymi kierunkami zmian w zakresie rozmieszczenia funkcji w badanej spółce zależnej było przemieszczanie subfunkcji między jej wewnętrznymi komórkami oraz między komórkami spółki zależnej i podmiotu nadrzędnego. Ponadto dochodziło do łączenia i dzielenia funkcji. Na te procesy wpływ miały następujące czynniki: efektywniejsze wykorzystanie czynnika ludzkiego, dążenie do obniżenia kosztów, dbałość o jakość procesu wytwarzania, ograniczanie konfliktów organizacyjnych oraz poprawa skuteczności i efektywności pracy. Opracowanie kończy podsumowanie, w którym wyartykułowane główne wnioski z badań.

### **Słowa**

**kluczowe:** *Jednostka nadrzędna, jednostka zależna, funkcje organiczne, subfunkcje, lokalizacja funkcji.*

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