

3.3. Group-Benefits vs. single entity optimization: Some aspects to consider (RC)

Introduction

Usually a group with multiple subsidiaries creates incentives for each of the responsible managers which might lead to typical challenges which are described in the principal agent theory.

In general, a person will act in his job according to their

- Ability, depending on their skills
- Motivation, depending on what (personal) goals they want to reach
- Authority, depending on what they are allowed to do.

Since most of the staff starts working within company and does not rotate within the group, they tend to start improving on their own entity without considering the whole group: Ability and Authority remain unchanged but the motivation is only focused on a single company. To gain significant benefits for the group, motivation to increase the group's benefits should be inflicted.

Sometimes on a pure monetary point-of view, decisions might be made that do not reflect the most economic point of view which should put the lowest cost first, instead some strategic considerations might be put first.

Creating synergies between local companies

If one group has several companies within China, e.g. by separating different strategic business fields or by a separation of production and sales, they often are challenged by similar topics in the administrative and financial side.

If not organized with a shared service center, each company will have similar functions in their own organization leading to unnecessary double work since the respective players do not exchange enough information or do not try to find solutions that can be reused.

Most of the local groups tend to work independently which often can be attributed to them being independent in their operation and of the key staff not knowing each other very well. Increasing information flow and building trust between the different companies, e.g. by job rotation, can work wonders.

Involve central functions only when required

Central functions in an enterprise mostly have the function to ensure the upholding of group's standards and to optimize the group benefit. They usually are involved during their regular tasks in which they tend to collect information from you and can help to clarify requirements that you might have towards them.

The downsides are:

- They often do not know the local challenges in detail
- For special inquiries, they require time to solve them.

This leads to the conclusion that the central functions should be informed if necessary, but decisions should be made locally if there is no considerable influence on the group, otherwise decision processes might be delayed.

At the same time, you should be prepared to wait quite a while until you receive the answer to your inquiries. As a result, it is recommended to involve group functions only when absolutely necessary or when they contribute a lot to decision quality.

Common pitfalls

- When considering local decisions either as a local company or as two localized companies within the same legal area, you might be too quick to make decisions if you do not involve the central functions of a group. Even while an opportunity might seem positive from your perspective, in a group perspective it can bring disadvantages that you are not able to see at first.