

The Research about Headquarters Management of Group Business

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Abstract

This study investigates how a group business headquarters management their multi-brand companies. In response to market failure and higher transaction cost, the companies form the business group. Especially in emerging markets considered to be an important corporate organizational structure. Companies within the business group have a lot of connections. Such as cross-ownership, intra-firm transactions, social relationships. In this research, we focus on the business group who own multi-brand to investigate formal and informal control mechanism. The business group under the complex network relationships and owned resource conditions, how to control their multi-brand companies? How to allocate their resources is appropriate for their future development?

In this study, we choose the group business listed on the China Credit Information Service from 2007 to 2016. The results found that the higher the formal control of the Group headquarters, the performance of group business is better. The informal control of the Group headquarters, the performance of group business is better. Besides, the group resources concentrated in the brand, the performance of group business is better.

Keywords: group business, headquarters management, multi-brand companies

Introduction

According to the group business theory, a group business headquarters management their multi-brand companies by different ways. Business group is alliance of legally independent companies in response to market failures and higher transaction costs. Especially, business groups considered to be an important corporate organizational structure in emerging markets (Khanna& Rivkin,2001). During the past, there are many different definitions for business groups. The main concept is“although these companies are legally independent, but was a variety of formal and informal ties together, used to coordinate the common activities.”Such as that business groups are subject to different external influences, and have business activities in different markets, but are also subject to be control in the same administrative or financial system. And the maintenance of the group members depends on the trust relationship between the private relationship, similar individual, ethical or business back ground (Leff,1978). That is business group are composed of many individual companies, it has a lot of associated links, including cross-ownership, closed market link(like intra-firm transactions),social relationship(family, kinship, personal friendly link) to achieve mutual goals(Granovetter,1994;Khanna&Rivkin, 2001;Leff, 1978; Strachan,1976;Yiu et al.,2005).

The control of the subsidiaries of the business group under the jurisdiction of the subsidiaries may be based on the size of the subsidiaries of the group assigned to the autonomy of the size of the distinction between different models, roughly divided into two kinds of high autonomy and low autonomy (Vancil&Buddrus,1979). Besides, Garnier (1982) also from this point of view to define the multinational corporations should not be how to manage, control the control of its foreign subsidiaries. Basically, the basic point of Garnier,Vancil&Buddrus is close. To explore the management system of the parent company, the concentration and dispersion of power. The control of business group can be divided into horizontal connectedness and vertical linkage. The horizontal connectedness is internal transaction mechanism, cross shareholding, interlocking directorates, and social ties. That is, the internal members of the business group have an interdependent relationship with each other. And vertical linkage is the core of the leading elite, the integration of the Group's equity and management, vertical equity control, control strategic resources (Yiu, Lu, Bruton&Hoskisson,2007).

Tsang (2001) argues that when group companies enter foreign markets, they tend to adopt informal controls. Chu (2001) argues that cultural control is more important when the organization's operations are more complex. Chung (2006) argues

that the operations of the business group are dominated by key individuals, that is, the use of management links to the informal control.

When the operation of the group enterprise is dominated by the relationship between its key individuals is the informal control mechanism in the managerial ties (Chung, 2006). For management ties, there are two views: resource dependence theory and social network theory. Resource dependence theory is about the external ties between a group and an individual to reduce its reliance on external key resources (Pfeffer & Salancik, 1978). Green & Welsh (1988) also consider that the use of resource dependent theory can explain how the parent company to control its subsidiaries. That is, why some of the subsidiaries to be strictly controlled, and let some of the subsidiaries do their own operation. Jaeger & Baliga (1984) pointed out that the degree of mutual dependence with other subsidiaries and the impact of a wide range of enterprises, the parent company usually takes a centralized control approach, little authorization. Social network theory is about the management ties can give the organization information and control its profit, even for its competition is also beneficial (Burt, 1992, 1997). Thus, in the complex network relationship, business group how to control its own company and control mechanism when the companies are distributed in different overseas markets? How to control the future development of corporate more appropriate?

Our study examines how the business group headquarters manages their multi-brand companies. In response to market failures and higher transaction costs, we focus on multi-brand business group to investigate formal and informal control mechanisms. Group business under the complex network relationships and resources, how to control their multi-brand companies and allocate resources for their future development?

Theory and hypotheses development

The parent company management model is divided into three categories, bureaucratic control, market control and clan control (Ouchi, 1980). This classification implies a different control base for each management model. Bureaucratic control is based on organizational level, administrative authority, mature rules and standards.

Market control is based on a series of economic exchange relationships through price and competition. Clan control is based on control the relationship between the subject and the object of trust and consistent values and beliefs. Compare with the bureaucratic and market control, clan control has a sense of informal organization. Therefore, control is a very important part of management. In addition, the group business also has a variety of coordination mechanisms. For example, direct equity, debt, directors, and members of the business club (Lincoln et al., 1996). In

Taiwan, the business group corporate research is focus on the family's main link and control (Chung, 2006; Luo & Chung,2005).

Therefore, the formal and informal ties are played the important roles on business group. Martinez & Jarillo (1989) according to the different attributes of the parent company, divided the organizational control into formal control mechanism and informal control mechanism. The formalization mechanism is a structured control mechanism, the main forms are departmentalization, centralization or decentralization, formalization and standardization, planning, output and behavior control. The types of informal control mechanisms are horizontal or cross-sectoral, informal communication, socialization(Martinez&Jarillo,1989). Control actually contains coordination. The co-ordination between the parent company and the subsidiary is also an act of control. Therefore, coordination is often a means of control. Also represents a possible relationship between formalization and informal control(Ferner,2000). Yiu, Lu, Bruton&Hoskisson(2007) divided group business structure into four categories. H-form, M-form, C-form,N-form. H (holding) -form represents a similar structure in the business group. The holding company partially or wholly invests in a single company, And its investment in the company for different markets or industries. This type of group is usually highly diversified. For example, Temasek Holding Pte, it has Singapore Airlines, Singapore Telecom, DBS Bank which is a government holding company investment and manages state-owned or controlled strategic assets. M(multidivisional)-form represents the parent company or the core business as a corporate headquarters and through part or all of the investment in the various subsidiaries. In addition, according to the parent company or the core business strategy objectives, from the supply of raw materials, manufacturing to sales and production are all related. For example,LG& Samsung. C (club) -form type on behalf of the group to provide a platform or infrastructure for enterprise members can share strategic resources with each other. Such as Japan's cross - market industrial groups, Mitsubishi Corporation will use its club to coordinate some activities. N (network) – form group of corporate representatives in a particular industry, one of the enterprises to play the role of leader, and other companies are also involved. For example, Taiwan's relationship business,Lin Yuan Group. Many corporate members revolve around a large enterprise with a high-tech industry or its industry mainly exports its goods, and its members within the group to link the level closer. (Yiu, Lu, Bruton& Hoskisson, 2007) And the degree of control, as well as coordination or not, the relationship between the two is in some extent really complementary relationship (Cray,1984).

For example, the Taiwan banking industry by deregulation to increase the efficient allocation of resources and make the industry better competition. But the

core of the group's business will affect whether it will enter the gradual relaxation of the banking industry (Chung,2006).The purpose of control is to regulate the organization of activities, so that members and organizational goals (Baliga& Jaeger, 1984). Cuervo-Cazurra (2006) argues that there are three types of group types: widely-held, state-owned, and family-owned.

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