
Evolution of Organizational Structure: A Case Study of a Multinational Corporation (MNC) Subsidiary in Poland

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Abstract:

Purpose: The purpose of the article is to present the changes that have taken place in the organizational structure of a subsidiary of a multinational corporation and to show its level of economic activity as a result of the changes made to its structure. The goal was realized by analyzing the literature on the subject and conducting an empirical study in a subsidiary of a German automotive corporation.

Design/Methodology/Approach: The study presents the following research problem: How the changes being made in the organizational structure of the subsidiary of a German multinational company affected its economic activity in the host country. In order to solve the research problem, an analysis of the literature on the subject was carried out, the levels of activity of the subsidiary of a multinational corporation in the host country and the scope of functions carried out within the framework of each activity were proposed. Then, in order to verify the theoretical assumptions, empirical research was carried out in the form of cyclic interviews with the director of the subsidiary and analysis of organizational documents (organizational structure charts, organizational regulations, etc.). The research at the subsidiary was conducted from 2010 to 2023.

Findings: The research shows that between 2010 and 2023, changes were made in the subsidiary's organizational structure by increasing and decreasing the scope of functions performed, moving functions between its cells, departments, organizational divisions. The company's economic activity in the host country was also changing as a result of interference from headquarters. Two opposing processes centralization and decentralization of functions were identified.

Practical Implications: The results of the research presented in the article can be used by other headquarters of multinational corporations to modify the organizational structures of subsidiaries and shape their economic activity in host countries.

Originality/Value: Research conducted in a subsidiary of a multinational corporation shows that the headquarters shapes the organizational structure and business activities of the subsidiary. On the one hand, it can increase the scope of its functions to be performed, its decision-making independence, and on the other hand, it can take away its functions and decisions. Decisions made on the subsidiary's operation will not always be accepted by its managers, especially when the subsidiary is in a phase of dynamic development and is hampered by the headquarters.

Keywords: Headquarters of a multinational corporation, subsidiary, functional areas, organizational structure, economic activity.

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1. Introduction

The organizational structure is an important management tool in the hands of managers. It should be flexible to changes in the internal and external environment of the organization (Grima *et al.*, 2023). As a result, it should permanently support the conduct of business at each stage of development of a multinational corporation (Sobotkiewicz, 2023). In doing so, it becomes important to maintain the requirements of simplicity of structure.

This can be achieved by reducing to the necessary minimum the level of formation of individual structural characteristics, including the number of basic organizational units (Hopej, 2017).

The issue of changes in organizational structure that is of interest to the author of the study concerns organizations consisting of multiple enterprises. By definition, it is more multifaceted and complex than in “classical” enterprises, as it relates to both the structure of the entire organization and its internal companies (subsidiaries). Internal subsidiaries can be organized in various ways, from the traditional hierarchy (Kostova *et al.*, 2016) to more advanced forms like matrix and network structure.

Subsidiaries are part of a multinational corporation that has the ability to share knowledge among different units (Bartlett and Ghoshal, 1989). In addition, subsidiaries are located in regions of the host country that often embody the social, professional and technological relationships between companies, enabling the flow of knowledge between companies (Porter, 1990; Tyagi *et al.*, 2023).

Multinational enterprise (MNE) subsidiaries abroad are important organizations in their own rights. They typically hold some of the MNE’s most critical resources, and operate at the forefront of complex international environments (Meyer, Lia, and Schotter, 2020). The management of subsidiaries thus not only presents major managerial challenges but also provides a foundation for the evolution of the MNE itself (Meyer, Lia, and Schotter, 2020; Pagkalou *et al.*, 2024).

The role played by subsidiaries and their competitive position within their respective multinational corporations (MNCs) are perceived as being subject to change over time (Achcaoucaou, Miravitlles, and Leo’n-Darder, 2014). Subsidiaries strengthen their competitive position within the corporate group by accumulating over time the competencies needed for innovation (Figueiredo, 2011; Thalassinos *et al.*, 2023). Nevertheless, changes in a subsidiary’s mandate depend not only on the endowment

of the external environment but also on its potential to embed itself in the host country environment and to make local resources available to other MNC units (Andersson and Forsgren, 2000; Dörrenbächer and Gammelgaard, 2010).

The ability to transfer organizational practices across multiple locations is a potential source of competitive advantages for multinational corporations (MNCs) (Ahlvik and Björkman, 2015). A subsidiary, thus, absorbs knowledge through its business linkages with local partners, which represent an important source of technological competencies enabling it to contribute to the MNC's overall capabilities (Andersson, 2003).

The literature draws attention to the duality of the subsidiary's interests. On the one hand, subunits serve the interests of the parent company and, on the other hand, they are under pressure from local stakeholders (Kostova and Roth, 2002). Subunits may therefore have certain interests that differ from those of the parent organization (Andersson, Forsgren, and Holm, 2002).

The purpose of the article is to present the changes that have taken place in the organizational structure of the subsidiary of a multinational company and to show its level of economic activity as a result of the changes made to its structure. The goal was realized by analyzing the literature on the subject and conducting an empirical study in a subsidiary of a German automotive corporation.

2. The Multinational Corporation (MNC) and the Activity of its Subsidiaries in Host Countries

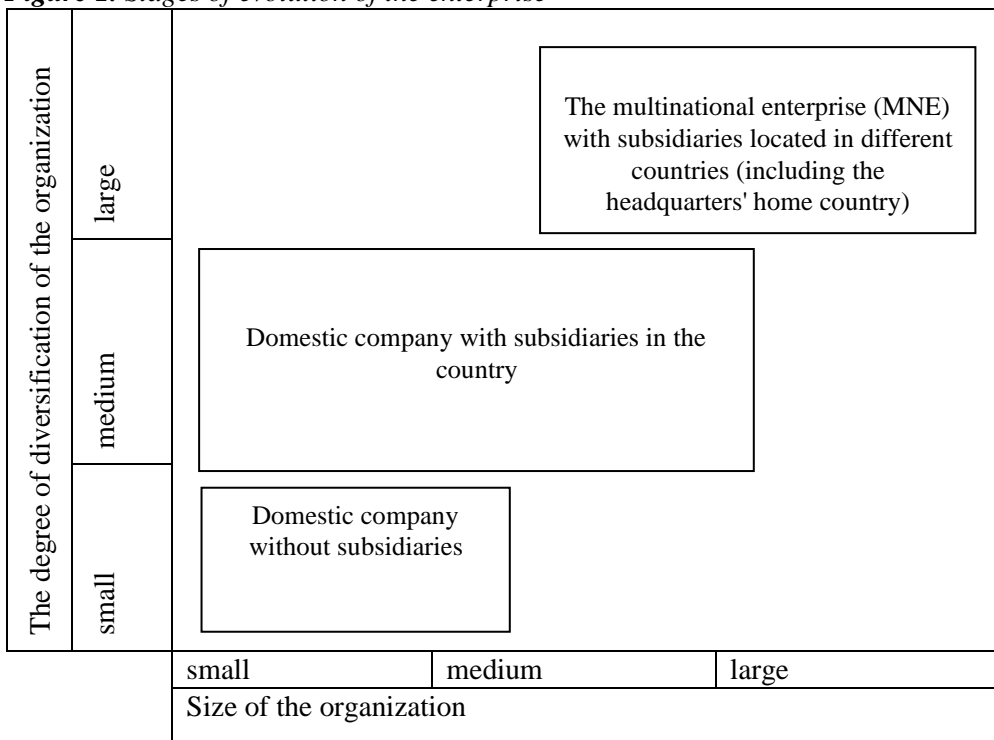
The multinational corporation (MNC) is an organization that manages and controls subsidiaries that conduct manufacturing, trading and service activities outside the home country. MNCs are usually formed as a result of a domestic company expanding into foreign markets (Figure 1). Typically, a company entering foreign markets has an extensive structure and is already highly diversified.

The multinational corporation (MNC) with its subsidiaries is distinguished from the typical enterprise by the following characteristics:

- MNC headquarters is a separate center of authority, management and control for subsidiaries.
- MNC's internal subsidiaries have varying degrees of decision-making autonomy. For companies that manufacture and sell products in a specific territory, their self-reliance is greater than for companies that distribute products manufactured by headquarters or sister companies.
- Subsidiaries of MNCs can be centers of power, management, control for other plants (companies). We will then be dealing with a multi-level structure with the following hierarchy: headquarters of the MNC - subsidiary - subsidiary plant.

- Subsidiaries can be both investment, profit and cost centers. In business practice, profit centers dominate. Parts of the enterprise that are profit centers can receive far-reaching autonomy from the management in terms of sales and production (Kaczmarek, 2010).
- MNC companies cooperate with each other in the functions of research and development, procurement, sales, marketing, investment.
- MNC companies compete with each other for new projects to be implemented, human resources, physical resources, financial resources, technology, sales markets.
- Far-reaching geographic expansion, manifested in the penetration of an increasingly large operating territory (in the home and host countries). Opening subsidiaries in host countries provides opportunities for direct exposure to new markets. This is important because doing business from the home country level does not always give the expected benefits. Hence, it is better to establish a direct presence in foreign markets.

Figure 1. *Stages of evolution of the enterprise*



Source: Own study.

MNCs are increasingly opening service business units in the form of business centers, so-called Shared Service Centers. The centers provide, among other things, financial, sales, marketing services to all internal subsidiaries regardless of where they are located. The creation of business centers for geographically dispersed

subsidiaries is made possible by the rapid development of the Internet and information technology. Global Shared Service Centers have transnational knowledge and foster a business culture based on global values.

The decision to locate a subsidiary in a particular host country should be preceded by a comprehensive analysis of the locations that guarantee optimal benefits for the subsidiary's location. For a subsidiary that manufactures and sells products in the local market, the following criteria for evaluating the subsidiary's location in foreign markets should be considered:

- access to qualified executive personnel,
- access to engineering and management personnel,
- access to raw materials,
- access to markets.

Location in the host country of the subsidiary is conducive to generating knowledge about customers, competition, business climate. In turn, the factors that facilitate and stimulate the development of the subsidiary in the host country are (Różanski, 2003):

- modern technology and technology made available by the parent company,
- application of modern organizational solutions,
- ample opportunities for financing the company's development projects,
- favorable situation on the local market (lack of competition or its weakness, high potential demand),
- creation by the host country of exceptionally favorable conditions for the operation of foreign entities,
- having efficient managers, delegated from the company's headquarters.

Multinational enterprises with operations in many countries face many more economic, legal, organizational, social and other problems compared to domestic enterprises and the international markets in which enterprises operate are very diverse and subject to rapid change (Sudoł, 2006).

Among the most important advantages of the activities of multinational enterprises, dynamizing the economy of the countries where their subsidiaries (plants or daughter companies) operate, are (Kaczmarczyk, 2010):

- stimulating local enterprises to become more efficient and competitive by introducing modern management methods;
- creating new jobs,
- development of new areas of the economy,
- transfer of new technology and modern management,
- dynamizing exports,
- creating a new source of budget revenue and improving the balance of payments.

According to J. Brikinshaw and N. Hood subsidiaries can perform various roles, which can be boiled down to the following (Brikinshaw and Hood, 1998):

- production and sales of products in the local market,
- learning local markets, gaining experience and its transfer to headquarters,
- to participate in the local investment community,
- being an active participant in local regional development.

Based on the roles that subsidiaries can play according to J. Brikinshaw and N. Hood, several economic activities of manufacturing subsidiaries in the host country can be distinguished. They are presented in Table 1.

Table 1. *Activity of a subsidiary of a multinational corporation in the host country*

Subsidiary activity	Internal market of MNC	External market of MNC	Level of substantive support from MNC headquarters
(1) Production, sales.	(a)	(b)	high
(2) Design, production, sales.	(c)	(d)	medium
(3) Project acquisition, design, production, sales.	(e)	(f)	low

Source: *Own study.*

Activity (1)

The subsidiary is engaged in the production of components or finished products ordered by MNC headquarters for the entire group - (a) or for companies outside the group - (b). The subsidiary is not involved in winning orders, nor does it have extensive sales and marketing structures or design and construction departments. Its role is reduced to producing and selling products in accordance with the requirements of MNC headquarters. The head office's role, in turn, is to provide extensive technical support to the company in product design, sales and marketing.

Activity (2)

Based on orders received from MNC headquarters, the subsidiary designs products, manufactures them and sells them to the internal market - (a) or to the external market - (b). The subsidiary has extensive design and construction departments, whose main purpose is to prepare technical documentation for the production of components, finished products. In this regard, the subsidiary companies do not need support from headquarters. It usually concerns sales and marketing activities.

Activity (3)

The subsidiary independently obtains orders from the internal market - (e) and external market - (f). It has considerable decision-making autonomy in every area of the subsidiary's operations.

The role of the MNC headquarters is reduced to financial and indicator control of the execution of central plans. The allocated freedom of action allows the subsidiary to create sales and marketing policies, including independently acquiring projects from the market.

Taking into account the above-mentioned activities of MNC subsidiaries, the following range of functional areas implemented by them can be indicated (Table 2).

Table 2. Functional areas of the subsidiary and its activities in the host country

Functional areas of the MNC subsidiary	The scope of functions carried out within the individual activities of the subsidiaries		
	Activity (1)	Activity (2)	Activity (3)
Production			
Research and Development			
Technical preparation of production			
Purchasing			
Logistics			
Quality control			
Maintenance			
Marketing			
Sales			
Personnel			
Accounting			
Controlling			
Information Technology			
Occupational health and safety (OHS)			
Law and organization			

Explanation of Table 2

No realization of functions	Implementation of functions to a narrow extent	Implementation of functions to a moderate extent	Implementation of functions to a significant extent
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Source: Own study.

The most extensive range of functions (functional areas) is found in the MNC subsidiary characterized by activity (3). Here the organizational structures are the most extensive. There are individual organizational divisions, such as production, economic, administration, within which tasks are carried out in many departments, organizational units.

Implementation of functions to a moderate extent occurs in the subsidiary characterized by activity (2). Here there are all the functions necessary in the process of manufacturing and selling products. However, within these functions, only part of the tasks are carried out by the subsidiary and the rest by the MNC headquarters. The head office provides substantive support to the subsidiary. The structures are less extensive compared to the subsidiaries - (3) and managers have less freedom of action.

The most truncated functions are carried out by subsidiaries characterized by activity (1). Their organizational structures lack many functional areas, e.g. research and development, marketing, sales, controlling, and for other functions the departments are not very extensive except for the production department.

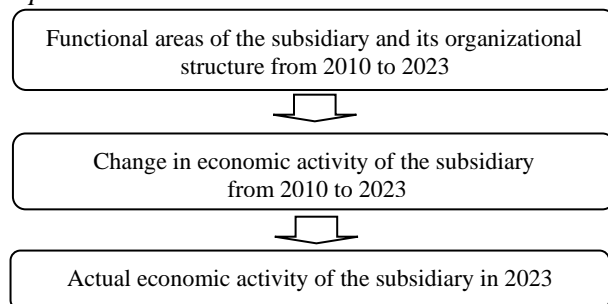
3. Research Methodology

In the research procedure, the main problem boils down to the question: how did the changes introduced in the organizational structure of the subsidiary of the German multinational company affect its economic activity in the hot country? Around the main problem thus established, the following research questions were formulated:

1. What functional areas were implemented by the domestic company of the German multinational in 2010-2023?
2. How did the organizational structure of the subsidiary change from 2010 to 2023?
3. how did the economic activity of the subsidiary change from 2010 to 2023?

The logic of the research procedure is shown in Figure 2.

Figure 2. *Logic of research procedure*



Source: Own study.

For the purposes of the research proceedings, the following assumptions were made:

- the main criterion for selecting a subsidiary of a multinational corporation was the availability of data,
- the research was conducted in a domestic subsidiary of a German corporation, the local management of which agreed to participate in the research,
- at the time the research began, there were no processes of mergers, acquisitions, demergers, divisions, divestitures of internal business entities in the corporation that could directly or indirectly affect the organizational structure of the studied entity. Thus, the essence of this assumption was to make the research results independent of the influence of various disturbing variables,
- it was a dynamic research, focusing the attention of the researchers on the processes occurring over time,
- the research lasted fourteen years and boiled down to monitoring the ongoing changes in the organizational structure of the subsidiary,
- a case study procedure was used for research purposes, based on a longitudinal empirical studies. The state of the organizational structure was monitored systematically (once a year). The case study procedure used the method of analyzing the content of organizational documents (organizational charts) and an individual interview with a list of open-ended questions,
- the individual interview was conducted with the director of the plant (who also serves as a member of the board of directors). The purpose of the conducted interviews was to deepen the issues discussed.

4. Characteristics of the Subsidiary

The subject of the study was a domestic company of a German concern. The company began business operations in 2003 in Lower Silesia . It specializes in the production of various plastic components, modules and systems for the automotive industry. During the period of the company's operation, employment and the number of projects for the automotive industry were systematically increased.

New production and storage halls were built, and the plant was equipped with additional machinery and equipment. In 2023, a new production plant directly reporting to the subsidiary was put into operation. In addition to the domestic company, the group includes two production facilities located in Germany and China.

5. Functional Areas of the Subsidiary from 2010 to 2023: Results of the Study

The first stage of the research was to determine changes in the functions performed by the subsidiary. The results of the research in this regard are shown in Table 3.

Table 3. *Functional areas implemented by the subsidiary from 2010 to 2023*

Functional areas of the MNC subsidiary	Scope of functions performed in each year			
	2010	2014	2017	2023
Production				
Research and Development				
Technical preparation of production				
Purchasing				
Logistics				
Quality control				
Maintenance				
Marketing				
Sales				
Personnel				
Accounting				
Controlling				
Information Technology				
Occupational health and safety (OHS)				

Explanation of Table 3

implementation of the function	lack of implementation of the function
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Source: Own study.

Analysis of the results of the interviews, the organizational charts and the data presented in Table 3 allow the following conclusions to be made regarding the functions performed by the subsidiary:

- In 2010, the subsidiary carried out production tasks with the support of technical production preparation, logistics, quality control, maintenance, personnel, accounting. In other functions, the company was supported by the MNC headquarters. In the field of health and safety, the company was handled by an external company.
- From 2010 to 2014, the scope of the company's functions was increased. There was a tendency to decentralize functions. Controlling, information technology, procurement of spare parts, part of the R&D function responsible for project construction work, EHS were located in the company, and personnel development was separated within the personnel function. In addition, additional tasks from functions already being performed in the subsidiary were assigned to be carried out from the MNC headquarters.
- Three significant changes in the subsidiary's operations were observed between 2017 and 2023.

Change I:

Orienting the subsidiary to production and production support areas. The purchasing function was strengthened by locating it in a stand-alone department, while assigning it new strategic purchasing responsibilities for the company. The changes made during this period were intended, as a result, to strengthen the company in its executive activities, to focus executive and managerial personnel on operational issues.

Change II:

The launch of a production plant directly reporting to a subsidiary with separate functions: production, maintenance, logistics, personnel. For other functions, the plant is supported by the subsidiary.

Change III:

Expansion of functional areas in project development, industrial engineering, project management and quality planning within the subsidiary's independent organizational divisions. These areas are located in the subsidiary, but the managers overseeing them report to the disciplinary and substantive managers of MNC headquarters.

They will be expanded with additional personnel at the expense of MNC headquarters. As a result, there will be a reduction in the size of the headquarters' organizational structure.

In the case of the project management function, the head office will continue to acquire new automotive projects for implementation, but project management, including contact with the customer and setting technical conditions, etc., will already be on the side of the Polish PM team, which was previously the competence of the company's headquarters. The rank and importance of Polish employees, managers in the entire MNC corporation will increase.

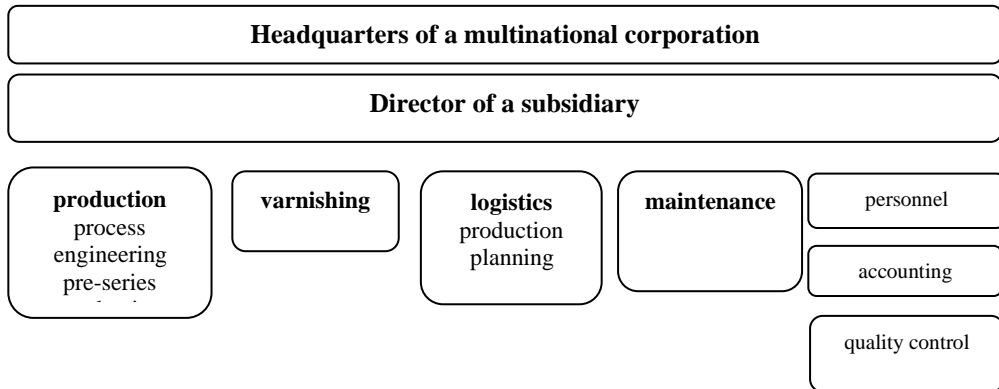
6. The Organizational Structure of the Subsidiary from 2010 to 2023: Research results

The second stage of the research was to identify changes in the subsidiary's organizational structure from 2010 to 2023. The evolution of the subsidiary's organizational structure is shown in Figures 3 through 6.

In 2010, the subsidiary's structure included the following functional areas (Figure 3):

- production, which also included process engineering tasks and the painting of automotive components,
- logistics, which included internal and external logistics and production planning,
- maintenance, and
- personnel, accounting and quality control.

Figure 3. Organizational structure of the subsidiary in 2010



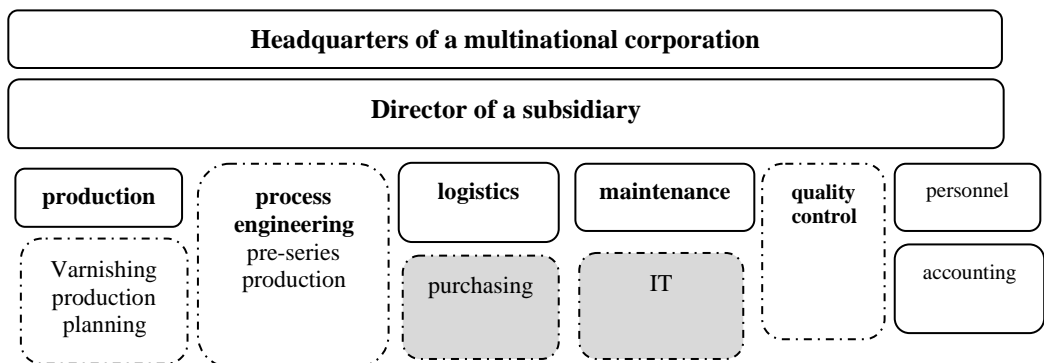
Source: Own study

In 2012, the subsidiary's organizational structure underwent the following changes in its functional areas (Figure 4):

- production planning and the varnishing were transferred to the production department,
- process engineering was separated from the production department and an independent department directly reporting to the company director was created. At the same time, the department's competence was expanded to include process optimization for the entire plant,
- a new cell was created in the logistics department to deal with the purchase of spare parts, and an IT section was created in the maintenance department.

Changes made to the subsidiary's organizational structure amounted to relocation and separation of functions. As a result of these changes, the organizational structure was expanded, employment increased slightly, and the cost of operating the plant increased.

Figure 4. Organizational structure of the subsidiary in 2012 roku



Explanation of Figure 4



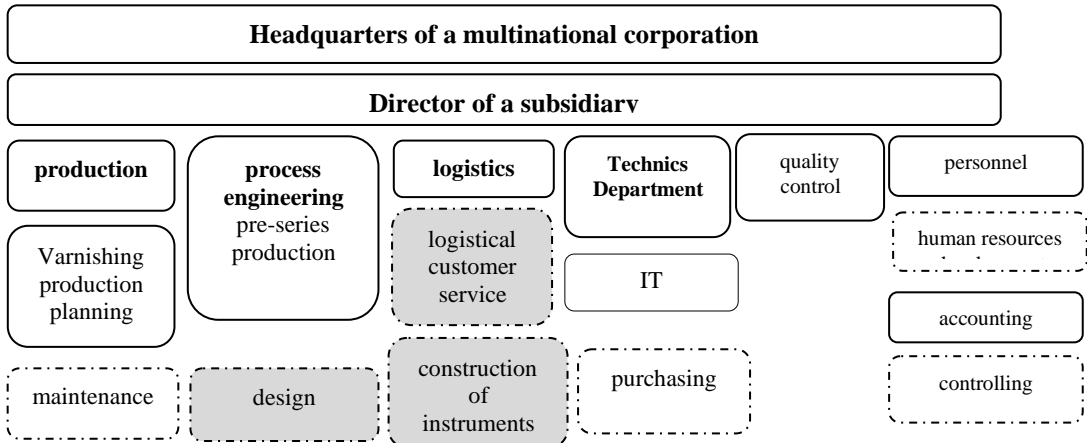
- relocation of functions in the subsidiary
- extracting new functions in the subsidiary

Source: Own study.

The following changes were made to the subsidiary's organizational structure between 2014 and 2016 (Figure 5):

- a new instrument construction department was established to design and build from scratch an assembly instrument based on the product design received from the customer. Previously, these competencies belonged to the headquarters and external companies.
- within logistics, production logistics, which was previously dispersed in three different production cells, and a new instrument construction cell were separated,
- in the accounting department, a specialized position for controlling was separated, supported by the headquarters in terms of content,
- an independent position for personnel development was separated, directly reporting to the company director.
- Maintenance was transferred to the production department and purchasing to the newly created engineering department,
- within process engineering, a construction department was created to deal with the construction of assembly instruments.

Figure 5. Organizational structure of the subsidiary in 2014 - 2016



Source: Own study.

The changes made to the subsidiary's organizational structure affected the company's size, complexity, employment status (most in the production area) and operating costs. Separated new organizational units responsible for planning, design,

construction and construction of assembly instruments strengthened the company in the research and development area.

Beginning in 2017, centralization processes began as a result of the decision of a newly appointed member of the headquarters' board of directors responsible for, among other things, overseeing the Polish company. As a result, the nature of the company's organizational structure has changed from conceptual-design-operational to "purely" operational.

The headquarters' intention is to strengthen the company's operational role and focus its attention on execution issues, thereby relieving the staff of conceptual and development work.

These changes have led to the strengthening of the purchasing function by locating it in an independent department with increased competence in strategic purchasing (components for production).

As a result of the changes that took place in 2017, the following organizational divisions and functional areas were separated in the structure:

- technical division, consisting of five departments: production, implementation (the department was created on the basis of the process engineering department), construction, technology, quality, and
- a financial and administrative division consisting of three departments: human resources, purchasing, accounting, and two cells: personnel development, controlling.

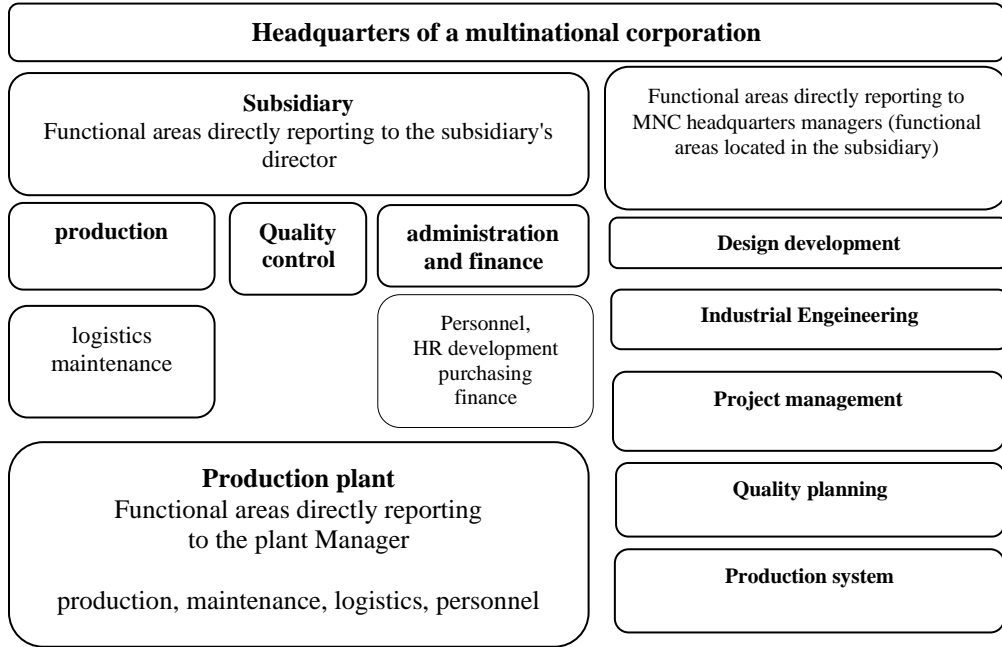
In 2022, a production plant directly reporting to a Polish subsidiary was put into operation. The current shape of the organizational structure of the company under study is shown in Figure 6.

The subsidiary and the production plant carry out functions to manufacture products. The MNC headquarters, on the other hand, takes charge of functions of a planning, conceptual and design nature with strong support from Polish managers and specialists who report directly to the headquarters' functional managers.

7. Actual Economic Activity of the Subsidiary from 2010 to 2023: Results of the Study

The third stage of the study was to identify the economic activity of the subsidiary in Poland. Based on the possible activities of the subsidiary plant (company) presented in the theoretical part of the study, the following activity of the studied subsidiary in the host country can be indicated (Table 4).

Figure 6. Organizational structure of the subsidiary in 2023



Source: Own study.

Table 4. Activity of surveyed MNC subsidiary in host country

Subsidiary activity	Internal market of MNC	External market of MNC	Level of substantive support from MNC headquarters
(1) Production, sales.	(a) this variant does not occur	(b) activity from 2010 to 2013 and from 2023 onwards	high
(2) Design, production, sales.	(c) this variant does not occur	(d) 2014-2022 activity	medium
(3) Project acquisition, design, production, sales.	(e) this variant does not occur	(f) this variant does not occur	low

Source: Own study.

From 2010 to 2023, there were two activities of the surveyed company in the host country. The first activity involved the subsidiary's focus on manufacturing processes with strong support from MCN headquarters. All production was sold to the external market. The second activity involved product design and manufacturing with moderate support from the company's headquarters. Here, too, the manufactured products were sold to companies outside the group.

The subsidiary's transition from the first activity to the second was related to the expansion of the structure with new functional areas, the acquisition of new competencies, and the decentralization of functions.

However, this process was hampered by the centralization of functional areas responsible for planning and design, which prevented the subsidiary from reaching the highest level of activity - (3). It is worth mentioning, however, that the present functions responsible for activity (3) are located in the subsidiary but directly report to the MNC headquarters.

After the changes made at the subsidiary, its activity in the host country returned to the level of (1). Here we also see some reorganization of functions (tasks). The main domain of the subsidiary's activity is to be production with functions supporting it. The headquarters, on the other hand, with the support of the subsidiary's personnel, is to be responsible for creating, designing and planning activities.

8. Conclusions

Multinational corporations (MNCs) conduct business both in and outside their home countries. Locating subsidiaries in host countries provides tangible benefits for the entire multinational corporation. In the case of Poland, it is access to qualified engineering and management staff, specialists in various fields and executive staff. Lower labor costs in Poland compared to labor costs in Western Europe influence a more attractive price of the final product (component).

The organizational structure is a management tool and an important element that supports and organizes the processes taking place in the organization. It is subject to change as a result of the impact of various factors (internal and external). There are no optimal organizational structures. There are only temporary solutions that work in a certain time and circumstances.

The role of managers is to design and implement such structural solutions that, on the one hand, facilitate the realization of objectives, reduce conflicts, improve communication on the other hand, enable further modifications that result from the experience of the company and the industry.

Between 2010 and 2016, the MNC subsidiary under review experienced an expansion of its organizational structure to include new functional areas. During this period, the subsidiary focused on manufacturing processes with strong support from the MNE corporate headquarters.

The first and then the second level of business activity occurred. Beginning in 2017, the centralization of functions began, which in effect shaped the structure of the subsidiary from design and conceptual to "purely" operational with planning and

design functions directly reporting to MNC headquarters. This change influenced the subsidiary to return to its first business activity.

The head office of the multinational corporation, by changing the nature of the company's structure, limited its field of activity in the design and conceptual sphere. However, it is worth emphasizing that the company under study is a component of a larger whole, and limiting its scope of activity may be justified from the point of view of the goals of the MNC as a whole.

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