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THE DISTRIBUTION OF SUBUNIT POWER: PERIPHERY, OVERLAPPING, AND GROUP AFFILIATION TERMINATION

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Business Group

A business group normally consists of a parent company and multiples subsidiaries, which also known as subunits or affiliates. In this research, I examined specific insurance groups in the insurance industry. One example that I use to illustrate is Allianz Group, with the group structure shown on the right.

Insurance Lines

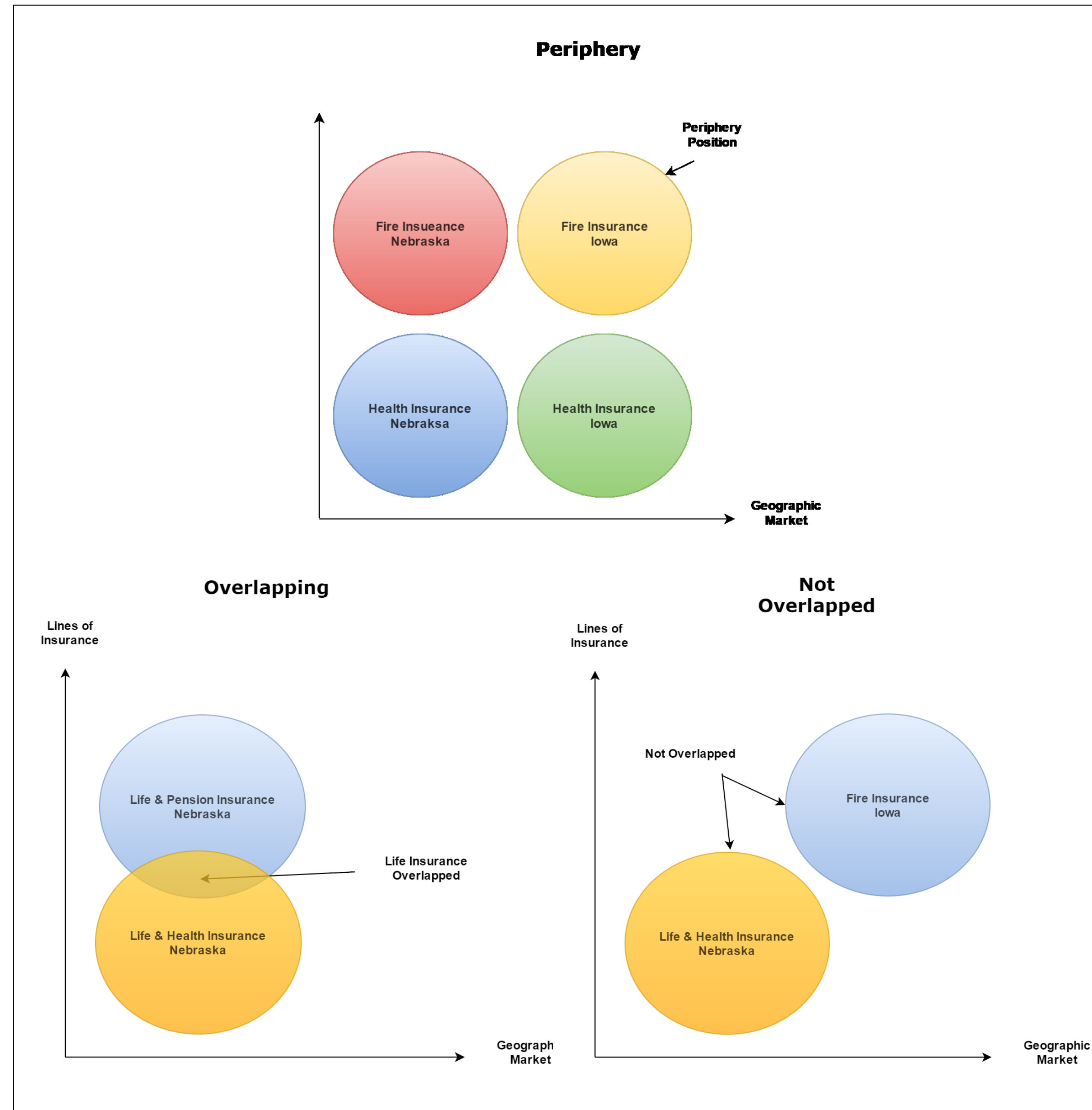
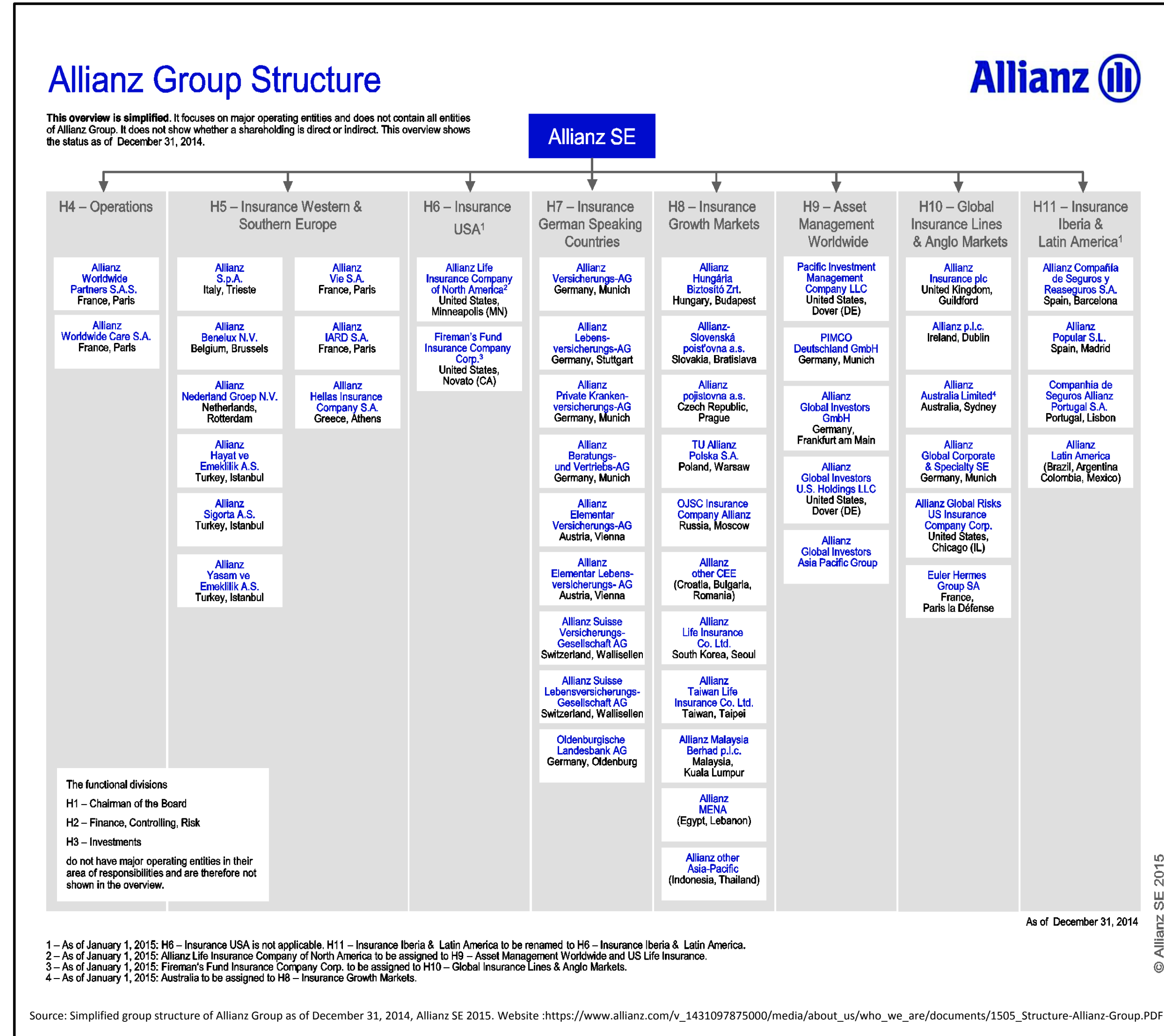
Insurance groups sell different lines of insurance product. Life, health, property, and liability insurance are the major lines of insurance. Breaking down commercial lines insurance includes products such as commercial auto insurance, fire and ocean marine insurance, worker compensation, reinsurance and the list goes on. While some insurance groups may sell more than one line of insurance, they normally focus on one or two lines of insurance as their core businesses.

Geographic Segmentation

Geographic segmentation is the division of the market on the basis of geographic regions. An insurance group will normally focus on specific regions to market its insurance products. Even if the insurance group is selling its product worldwide, it will still choose certain regions as its core. Allianz for example, focuses on Europe and US market, even though they do sell to some country in Asia.

Resource Dependency Theory (RDT)

In this study, Resource Dependence Theory (RDT) is an important and a more externally oriented perspective for me to understand subunit termination. RDT stresses the stable flow of resource from the end market, and the power of a subunits is positively correlated to the market dependency of the subunits. To study the market dependency as the source of subunits market power, I combined two dimensions of dependency, geographic market and lines of business. The dimensions of subunits power can be defined by two variables, the critically and substitutability of the subunits. Two concept were constructed based on RDT – periphery and overlapping. I propose that subunits in periphery position and subunits that has overlapping market segmentations with other sister subunits are vulnerable to termination.



Subunit Power

Periphery

Periphery is a market position where the subunits are distance from the parents company in terms of the business and geographic region. Subunits are often centered around the central business and they play an important role to maintain the company core competencies, but some of the subunits may seems to have low correlation with the core business, which also known as the periphery position. However, subunits position may change over time due to corporation restructuring. If the company choose to refocus on the core business, some niche market may be abandoned, so subunits which are in the abandoned niche market will be shifted to a periphery position. One way a subunit in periphery position can increase the market power is by having a significant market share. This can be explained by RDT

Overlapping

Overlapping is when more than one subunits of a same company share the same market within the same geographic region, even if one of the overlapped subunit has a more diversify business due to factors like managerial decision, market opportunity, and resources availability. Overlapping subunits leads to intraorganizational competition and are consider to be substitutable alternatives, which reduces their marker power. Parent company might use one subunit to replace another if they are highly overlapped. Overlapped subunits should strive to differentiate from the other subunit with same market niche in order to maintain the market power, but differentiating might shift the subunit towards periphery.

Subunit Termination

Business group may decide to terminate a subunit to allow organizational restructuring. Subunit termination normally comes in three forms – divestiture, dissolution, and spin-off. This study is significant for business group to understand the position of subunits to make a better decision when terminating subunits by looking at the subunits market power. This study also allows subunits to predict the business group decision by looking at their market position, if a subunit has a high termination risk due to the periphery or overlapping position, the subunit's management should make changes to the business in order to increase their market power while moving away from periphery or overlapping position.