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Financial alignment and cost allocation strategy in an MNE: A case study

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Abstract:

Financial synergies are performance advantages gained by leveraging financial resources across strong long-cycle international businesses in a multi-unit firm. Typically, financial alignment and the appropriate allocation of costs are not given the attention needed. Cost mapping is critical to the measurement of business-unit performance. The participants in this case study identified items in financial reports that required attention to enhance clarity in reporting, such that opportunity discovery and appropriate action can be taken. Furthermore, misallocations are a source of frustration for P&L owners that are accountable for their financial performance. Cost awareness and control in a business unit by P&L owners is important for financial performance accountability and control. Finance, as a support function, has a critical role in successfully completing focused actions that result in the realization of growth. The author adds to theory of financial performance driven by alignment and allocation through this empirical study.

Keyword: financial alignment; cost allocation; cost mapping; misallocation; focused action; growth synergy

Introduction:

Costs and more efficient, quality capital allocations due to fewer restrictions. External sources of capital do not benefit from the information available to internal managers and they may not be inclined to make capital available (Obel & Vander Weide, 1979). Further financial benefit for the diversified multi-unit business comes from reducing tax liabilities by offsetting profits in one business, or by using the losses from another. Additionally, a reduction in fixed transaction costs and fees may be experienced due to financial economies of scale (Dyer & Singh, 1998; Xiaokai, 1994).

The case:

The case company is a global value chain consisting of a few dozen locations, several on each continent. Regional companies have a degree of autonomy around their local markets, but some clients are multi-regional, and collaboration between units is needed to serve them globally. The case company's business unit (BU) managers unanimously adopted a scalable organizational design that optimized decentralized collaboration while providing guidance over all functions. The strategy of the case company is to outperform competitors, exceed financial performance targets, and grow the company into addressable markets. Together with corporate guidance, functional leaders endeavor to expand the company's market presence through superior strategic positioning and operational excellence. Location leaders strive to position their businesses in attractive markets with sustainable growth, high earnings potential, and with low volatility. Operational excellence is driven by the achievement of innovation, a global network for production, world-class performance, and a leading technical capability. Product leaders leverage and develop cross-business synergies with product lines. Continuous alignment allows for the realization of efficient synergy, product performance, and knowledge sharing. Support leaders enable operational efficiencies through systems and infrastructure. Growth requires that systems be modified to meet new client needs. Increased throughput demands infrastructure capability while infrastructure continuously evolves as older equipment achieves end-of-life. Additionally, when new workflows are built the may demand workflow capability changes. Business development leaders have relationships with clients that may span multiple facilities or be just in one location. The responsibility of these leaders is to exploit the *wallets* of clients in the most profitable scenario possible. All of the functions in the organization are linked, requiring a high degree of collaboration and support for success.

The case company has an established and continuously evolving portfolio of products and services. Megatrends affect choices by clients and end users; however, it is necessary that the case company be proactive in product development decisions to leverage as much of the product life-cycle as possible. Furthermore, megatrends, affect strategic decision making to optimize profitability potential in all business units. Operational excellence enhances the value of products and services and supports higher pricing than competitors. To a client, the product quality is critical; however, the arrival of that product, as intended, to the right destination, through the correct method, in the right quantity, on time, and with an accurate invoice also on time are all aspects of the overall customer experience. The experience that the client had while ordering their last item will be their current impression of the company. This impression of service is a part of the product and influences the client to order again from the case company. Service is driven by *talent excellence* which focuses on human resources in use. The current and evolutionary level of talent guides recruiting, personal improvement plans, succession planning, and membership in the talent pool. *Corporate excellence* relates to best-in-class governance through direction and support.

The critical aspects of the case business drove their strategic portfolio and the priority of each initiative it contained. Growth stagnation had settled in and the company's expansion opportunities needed to be exploited. The market was shifting and it was important that the corporation was not left behind. After all, the case company and the corporation operate within a market that has intense competition. Furthermore, product commoditization was occurring at a rampant pace, reducing life-cycle earning potential along with the return on investment (ROI) on research and development (R&D) investments. Competitors had strong growth aspirations and were willing to compromise price in order to acquire some of the addressable market so that they could spread their costs across a larger volume of work. Additionally, some of the markets that the company operated in had become saturated and the life-cycle of some of the legacy, money-making products had peaked.

This article will discuss the opportunity of alignment and allocation across a multinational enterprise case company with a global supply chain. The author intends to add to theory regarding financial performance driven by alignment and allocation through this empirical study. The study will be separated into several critical parts. The first was the introduction to the concept of financial synergy and the introduction to the case company. This will now be followed by a discussion regarding the quality of the research and the methods used to collect and analyze the data. The findings will then be discussed including financial observations regarding allocations, cost alignment, and revenue. Finance actions needed to preserve alignment will be discussed next followed by a conclusion. Next, the research methods are discussed.

Quality of the Research:

Creswell (2014) describes validity in qualitative research as being the determination of whether the findings are accurate from the standpoint of the author, the participant, and the readers of an account. In this case, language and meaning are the data. Creswell (2014), in parallel with Lincoln and Guba's (1985) approach, offers qualitative researchers eight possible strategies for checking the accuracy of findings; triangulation, member-checking, rich descriptions, clarification of bias, the use of discrepant information, prolonged time in the field, peer debriefing, and the use of an external auditor. The author selectively used these strategies to ensure data validity with a focus on triangulation, peer debriefing, and member checking.

Endogenous validity refers to the validity of established causal relationships (Yin, 1994; Lamnek, 1995) or the internal logic of the research (Punch, 1998). By establishing a clear thematic focus that guided the case selection, abstracting and comparing, conducting peer reviews of causal relationships and by having an open and comprehensive explanation building validity was achieved. A thematic focus was evident in a clear definition of an overarching research theme (cross-unit synergies), a narrowing research focus (operative synergies), and a specific research question (the sustainable realization of growth synergies leveraging a unification strategy) along with a compatible case selection in which the constructs of interest could be discovered. Continuous abstracting and comparing (Strauss & Corbin, 1990, 1996) occurred as the author continuously compared data sets to build higher order constructs, preliminary results to emerging data to confirm or refine results, and observed causal patterns within the existing literature. These comparisons improved the validity of causal relations (Yin, 1994). Peer reviews of causal relationships were discussed with research colleagues. Additional perspectives were captured and tested based on experience in the field. These additional perspectives also enabled the validation of internal consistency and theoretical relevance of the author's arguments. The final technique for internal validity was through the open and comprehensible building of explanations and causal relationships. The reader could reconstruct the causal relationship because of the way that the results were documented (Mayring, 1996). Openly, the author indicated initial ideas, deducted assumptions, and challenged potential inconsistencies.

Exogenous validity refers to the generalizability of research results critical for robust theory development (Sutton & Straw, 1995; Weick, 1995) and depends on the research approach (Yin, 1994). Single case study empirical findings are difficult to generalize. Yin (1994) emphasizes that case studies do not allow for statistical generalization. More specifically, it is difficult to make inferences about a population based on empirical data collected in a sample. While issues of generalizability from case studies are severe (Denzin, 1989; Yin, 1994), single-case studies are recognized to be substantial from an evolutionary perspective (Stake, 1995). Single case studies can also provide new ideas and new thinking paradigms. They can help modify existing theories by exposing gaps and helping to fill them. There are several facts about this study that support the author's conclusions that the findings and propositions will be at least somewhat generalizable. General theoretical relevance of the research can be confirmed as being present in existing literature (Eisenhardt, 1989). The findings were confirmed through consultation with participants, who are operationally capable with varied experience in the industry, suggesting the potential transferability of the claims. Finally, the findings were somewhat generalizable due to the continuous comparison of similarities and differences in case items across different levels of analysis.

Reliability refers to the possibility that researchers can replicate the research activity and produce the same findings (Eisenhardt, 1989; Yin, 1994). A challenge for this replication is the attribute of qualitative research, in that it is bound to the context in which it is conducted (Lamnek, 1995), including time. The reader can draw their own conclusions from reliable qualitative studies when sufficient information is presented (Yin, 1994). The author attempted to ensure reliability through the explicit disclosure of the research design, including a detailed description of the research process, case selection criteria, interview guide, and methods for collecting and analyzing empirical data.

Data and Analysis:

The purpose of this qualitative phenomenological research study, using Moustakas, (1994) modified van Kaam method, was to explore the real-time experiences of stakeholders, or co-researchers, as they lived and influenced events occurring around them. Stakeholders have to anticipate events, make sense of existing environments, and exert influence over future trends. Weick (1995) suggests that sense-making is a retrospective cognitive process that explains unanticipated events. He also suggests that activities in a socially-created world both support and constrain action. Weick, Sutcliffe, and Obstfeld (2005) later suggest that individuals form both assumptions and conscious anticipations of future events. By examining sense-making and the development of mental models through actual lived, shared experiences, this study captures the subjective processes that have been largely ignored in the context of the connection between organizational design and growth in a multi-unit firm. Using the experience of stakeholders, the author presents a conceptualization of how individual participants in this study made sense of their lived experience. This sense-making was an ongoing process for participants as they refined their understanding of lived experiences and established new equilibriums.

Each section included individual textual descriptions as well as composite descriptions concisely oriented and illustrated in a theme map structure. Moustakas (1994) suggested that the integration of textual and structural descriptions into a composite description, such as a relational table, is a path for understanding the essence of an experience. The composite description is an intuitive and reflective integrative description of the meanings and essences of a phenomenon, of which the entire group of individuals is making sense. The participants create meaning through their awareness of the environment, reflection on their experiences, consultation with others, focused response to an inquiry, and iterative refinement to these inquiries.

Coding

An interview protocol with specific questions oriented in a sequenced schema facilitated data collection. Volunteers were solicited as participants from a pool of leaders based on a willingness to share information about the transformation of the case company division (Susilo, 2018). Each volunteer co-researcher participated in the changes personally. Following each question, the participants' response was determined to be linked to the question asked and was determined to be meaningful before continuing. An answer could trigger a clarifying question, or a question formed to solicit a more fulsome answer if needed. The additional information modified the answer and once again was determined to be fulsome or not. The data was added then to the data sheet and coded. Sub-code themes also emerged from the data and were grouped by code and sub-code. The data was surveyed by the author, who, due to personal experience, was able to apply an *analysis for good* (ANOG). To reduce the noise in the data and ensure completeness and clarity slight modifications were made as needed. These modifications were accomplished by consolidating like data points and simplifying others by stripping out noise and redundancy in the answers. The data was then re-sorted and generalized through categorizing. A pivot-table was used to extract themes in the wording. The curated raw data was then posted in a table. In some cases most of the themes were unique, in which case a table was not used. From this data, dependencies, relationships, and the sequence of events were determined and organized into a theme relationship map. Occasionally the data collected appeared as though the participant was confused about the question. When this happened the author followed up with the participant and then added the newly acquired information to the raw data previously collected.

The raw data was collected from each participant for each data domain and sub-domain in the sequence in which it is presented to promote a progression of thought. Patterns that emerged in the data are presented as textural responses (what happened), structural responses (how did it happen), or composite descriptions (what the group experienced). Data was interpreted into theme patterns. These patterns became concise *propositions* or findings from the study. Data items that referred to individuals, functions, line of business, locations, systems, or company names were obfuscated, eliminated, or given a pseudonym. The propositions, or findings, were formed and listed numerically.

Within each proposition, a two-word summary was formed along with a statement that sums up the finding. For example, a central theme, norm strategy, or trigger may have emerged from the data as a result of coding. This data could then be categorized or filtered through the constructs being discussed that may include the strategic frame, product strategies, or a narrowed scope as examples. These constructs were the beginning of the theme map, or the outermost layer. The layers could then be elaborated on by breaking the outermost layer into sub-layers until it was reasonable to stop. The theme map was created to better describe the themes in the data and to show relationships and sequences between unique data items. The findings from the process described above now follow.

Findings:

Cost mitigation:

Cost management is closely associated with the profitability of each product or service. In a dynamic environment, profitability relates directly to cost efficiencies and mitigations. Existing and growth-oriented revenue needs to be fulfilled in the most efficient way possible. These efficiencies have the follow-on effect that leads to the ability to take on more work and increase market share. A business unit (BU) leader needs to understand and manage cost in order to help the organization experience growth synergies as illustrated in the figure below. One co-researcher said,

> *"[I] drive various cost savings initiatives, locally and globally, in regard to stock purchasing, courier and freight services, and off-site media storage." (RH235)*

The desirable attributes of cost mitigation are (a) measurement, (b) waste reduction, (c) workflow efficiency, (d) centralization, or pooling resources, and (e) workflow alignment. Additional data (for a) suggests that measurement should include accurate cost allocations, financial performance measurements, and the application of key performance indicators that accurately reflect the performance of the business unit. Additional data (for b) suggests that there is a need for waste reduction that includes streamlining, Lean Sigma projects, and a zero defect mentality. Additional data (for c) suggests that focus needs to be placed on workflow efficiency in two focus areas: core workflows and profitability by line of business. Additional data (for d) suggests that there is opportunity for centralization, specifically for ingest, but also for other functional areas. Finally, additional data (for e) suggests that workflow synergistic alignment can help to negate redundancy, but a business unit (BU) leader should also look outwards to discover opportunities for other business consolidations. In conclusion, the BU leaders indicated that cost management was critical to BU leadership.

> *"[I] increase line of business (LOB) profits by creating efficiencies and lowering costs within the operation." (RH178)*

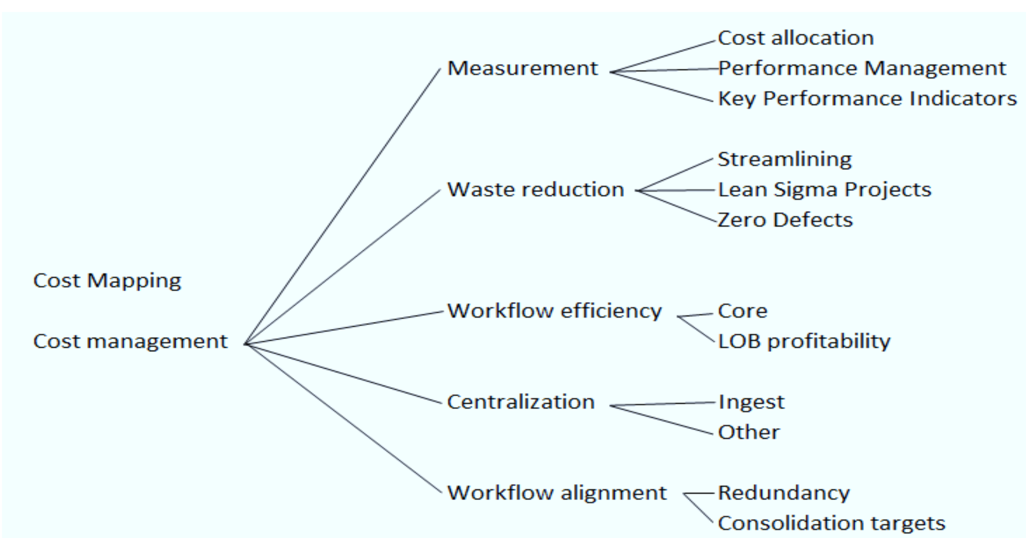

Figure.1 ***Cost mapping and management theme map. This figure maps cost mapping and specifically cost management as a theme category into descriptive sub-groupings.***

In summary, the data suggests that cost mapping is critical to the measurement of business-unit performance. This cannot be achieved without transparency, accuracy, and timely reporting. Cost performance is enhanced by waste discovery and reduction. This is further enhanced by opportunities for alignment that provide for compatibility within workflows. Core workflows experience most of the volume and should be given significant cost-performance attention. The following propositions summarize the key findings of this section:

Proposition.1 (cost measurement): Accurate cost measurement for each LOB creates awareness of workflow profitability variation that may lead to targeted cost mitigations.

Proposition.2 (workflow design): Workflow synergistic alignment and capacity pooling, where there is demand variability, improve utilization and increase profitability.

Financial observations:

The participants in the study indicated items in financial reports that required attention to enhance clarity in reporting, such that opportunity discovery and appropriate action can be taken. The data suggested that BU leaders need to understand both the financial allocations of fixed costs and shared services within their P&Ls and their financial performance trends so that they can predict profitability outcomes. In some cases financial allocations are incorrect and relate to the functions of colleagues. Collaboration and a penchant for fairness are necessary so that financial reporting gives a truthful representation of costs. The scope of the financial review in this study includes results from the first half of 2014 and covered products, services, locations, clients, and support functions. The financial observations were collected and coded into several dominant themes as presented in the table below. Gaps were then closed enabling accurate performance monitoring. The data revealed five themes from 84 rich data descriptions.

Table.1 ***Financial Observations Theme:***

Theme	Count
Allocations	37
Costs	36
Comparison	27
Revenue	11
Organization	10
Total	84

Allocations:

An analysis was done within each theme. The first category was allocations. This related to how charges were allocated to the P&Ls. At a high level this accuracy is not as relevant as it all rolls up within the divisional P&L regardless of how it is allocated; however, it is very important for the P&L owners whose business viability and bonuses are dependent on meeting business unit specific financial targets.

> *"There are ... random expenses listed on the [location] shared service P&L…I suspect folks are dumping expenses they don't know what to do with in shared services. I will check with [name] on this. For example, there are entertainment and travel expense charges for May and July…what are those from?" (F113)*

More importantly, BU leaders need to understand the financially related cost and revenue data of the product, or line of business (LOB), and how it performed in workflows at the locations where it is produced. Accuracy is also necessary for monitoring, trend analysis, and performance forecasting. Occasionally there are 'financial surprises'. These are unanticipated costs attributed to a P&L that influence monthly results. An example would be an unknown, or heretofore, not leveraged rebate or an unexpected labor transfer for a side project or a 'favor' to a client of another BU. These unanticipated financial events can compromise promised business budget outcomes. Intercompany revenue and cost are a source of confusion in the absence of appropriate norms. Similarly, shared services cost allocations need to be applied with an appropriate rule set related to space, energy costs, and the various services that are used. The table below exposes 24 themes extracted from 36 rich data descriptions within this category.

Table.2 ***Allocation Themes:***

Theme	Count
Labor allocations	6
Inconsistent allocation	3
Accurate allocation	3
No vault charges	2
Rebate allocation accuracy	2
Remap revenue/cost relationship	2
Allocation trends	1
Allocations applied timely	1

Business allocations	1
Cost allocations charge to function	1
Credit card allocation accuracy	1
Entertainment/Travel allocation	1
Finance arbitrary allocations	1
Finance push-back due to effort	1
Incomplete information	1
Inter-company allocation accuracy	1
Legacy siloing	1
Misapplied invoices	1
Off-load labor allocations	1
Shared services allocations	1
Shared space policy	1
System to track allocations	1
Timely financial results	1
Vault in 'other'	1
Total	36

This information is further illustrated in a theme map in the figure below. The key themes related to allocation were accuracy, trends, timeliness, arbitrary charges, costs, and revenue. The data suggested that allocation accuracy is related to the following functions as examples; shared services, rebates, off-load labor, and local labor by labor type. In some cases there was resistance to provide accurate information as it would add effort to provide it, it would reveal inconsistent allocation rules, or it would result in accurate but less desirable P&L performance results.

> *"There is no consistency for charges or allocations at the different company sites in regards to shared services. It's difficult to find vault-related revenue or how much overall it 'costs to run a vault' because of this. For example, in [location], everything that falls within the shared services bucket (called 'support') is allocated to all divisions in [location]…where as in [location] there are no allocations out of shared services. Under 'support' is facilities, engineering – [warehouse] charges hit this cost center." (F125)*

There were also legacy allocation structures that no longer applied. In fact, the legacy allocation method contributed to a lack of accuracy regarding actual P&L performance. Many expenses, such as travel and entertainment, are charged to credit cards. These needed to be allocated correctly, especially if the cost is shared between departments. When allocations are not applied correctly, trending and business intelligence are put at risk. Assumptions can be made about the business that may be inaccurate, leading to poor decision making. For example, intercompany negotiated rates may hurt the financial performance of one business unit and benefit another. Inferences about the health of the product line or the business unit may then be flawed. Allocations should also be tracked so that cost reduction opportunities can be discovered from the data and exploited. If the information is timely so can be the cost mitigation. The data suggested that efforts to know financial trends were hampered by incomplete information on allocations and invoices that were incorrectly applied.

A general norm applied universally, such that cost and revenue followed each other, would solve many of the misallocation issues. When this is not applied uniformly, labor can be attributed to a functional area that is not credited with the revenue for the work that was done. Once allocations are accurately distributed, performance ratios can be exploited to highlight opportunities, measure performance, create trending, and forecast performance based on future work.

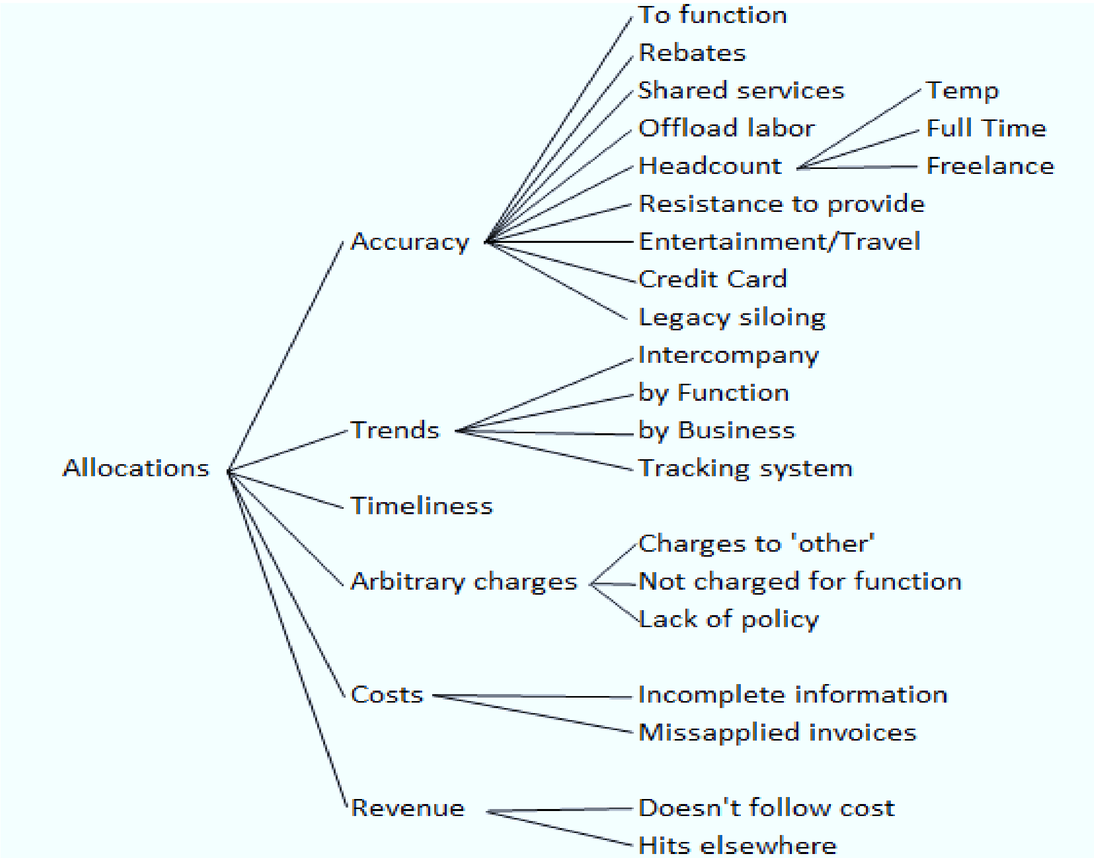

Figure.2 **Allocation theme map. This figure maps allocations as a theme category into descriptive sub-groupings.**

In summary, the data suggests that misallocations are a source of frustration for P&L owners that are accountable for their financial performance. This frustration is exacerbated by arbitrary charges and inaccuracy in cost assignments. Charges may also be obfuscated by locating them in strange accounts. When P&Ls are not available until a considerable amount of time beyond month-end closing has passed, the ability to forensically investigate performance anomalies starts to fade into history. The relevance of the action is lost. The following propositions summarize the key findings of this section:

Proposition.3 (allocation unity): A standardized and appropriate cost allocation methodology creates predictable financial performance and allows for profit-producing trend monitoring.

Proposition.4 (report usefulness): Financial report usefulness depends significantly on the timeliness and accuracy of cost allocations.

Cost alignment:

The BU leaders were able to uncover cost themes that emerged in the collected data. An understanding of costs helps BU leaders know where to direct their attention for purposes of expense mitigation. BU leaders thought that the most important elemental cost was the cost line item. An understanding of, and the transparency of, these line items was important to know. This cost item could relate to operational activities, materials, space, special costs, waste, 'other', or the cost of not having a system that would create transparency and potentially mitigate the cost.

> *"Both [location] and [location] are running similar margins. The revenue to labor percentages is almost identical. [Location] is 2% more costly at the moment than [location] but has a better marginal cost curve and a more favorable potential with its income to expense ratio if we operate beyond budgeted volumes even though [location] labor rate is cheaper." (F7, F8)*

Some costs are internal (labor) while others are external (rebates). Some costs are not entered into the business system and so are not known to those who get the financial reports. Some costs are unexpected, more than what they should be, or have 'mysterious' origins. An awareness of cost leads to the opportunity for mitigation. The raw data was coded and 16 themes were extracted from 33 rich data descriptions as illustrated in the table below.

Table.3 ***Cost Themes:***

Theme	Count
Cost line item	12
Cost of materials	3
Cost type	3
Cost mitigation targeting	2
Mysterious costs	2
Activity based cost	1
Cost for space	1
Cost per team function	1
Cost ratios	1
External cost	1
Not in a system cost	1
Other costs	1
Relatively high	1
Special costs	1
Transparency	1
Wasted cost	1
Total	33

Data related to 'organizational' aspects of cost were added to this data as follows in the table below. Several cost themes emerged that relate to how financial reporting is organized. There was the need for a centralized labor model that uses a singular allocation algorithm.

> *"[Locations] need to work toward a centralized labor model also." (F13)*
>
> *"[At location] labor is centralized but needs to be allocated in the financials... currently it's just random." (F12)*

In some cases freelance labor is utilized for various businesses. Each hour used needs to be tracked and allocated to the business that used it. In some cases BU leaders felt that some pooled functions should be included in shared services. Drawing the boundary for where a shared service lies is a part of the solution. In some cases BU leaders felt that the line should be drawn more widely. With the merging of different companies and business units, there are salaries that are outside of the existing salary bands. These need to be dealt with, as they are disruptive. The organization of cost and revenue needs to be aligned such that revenue follows cost.

> *"Based on my discussion with [name], we would like to move [function] cost/revenue into [BU]. This will have negative impact on earnings before interest, taxes, depreciation, and amortization (EBITDA) on [BU] but will show a true picture. I will start the discussion on this with finance, billing, etc." (F43)*

All costs associated with a product that is sold worldwide need to be rolled up into one product or service based P&L.

> *"Financials also need a rollup of the total WW P&L." (F6)*

Likewise, a client that sells product worldwide and uses the case company's services to accomplish this should have a P&L that reflects the business that the company does with this client worldwide. When geographic boundaries are crossed, the availability of data can be a challenge; however, a true global enterprise should have mechanisms that enable transparency regardless of geography. The timeliness of this information leads to more effective decision making and provides an opportunity to exception-manage random expenses that should be handled separately.

> *"Mysterious charges [where] applied to [BU] without [location lead] or [product lead] approval." (F39)*

Exposure of the P&Ls should be vertically downward such that all the right people know what their financial performance has been. The 10 themes that emerged from the data are included in the table below.

Table.4 ***Organization Cost Themes:***

Theme
Centralized labor model
Cross-utilization FL
Expand shared services model
High-flier salaries
Move cost/revenue
Rollup to WW P&L
Data availability
Timely reporting
Random expenses
P&L Scrutiny

The 'organization' based data and the cost data were consolidated into the relational map in the figure below. This map suggests that costs can be broken into seven categories; line item, type, ratios, 'mystery' costs, activity-based costs, transparency, and organization. Line items could include a number of types of costs associated with space, materials, and other. Some are special, perhaps higher than they should be, or are not in the system, external in origin, reflect waste, or are just mysterious. Line item information can be used to create performance ratios and the concomitant trends useful for analysis. Costs need to be associated with activities so that their cost burden and associated value are understood, and priced correctly. If the information is transparent and applied quickly, it can be mitigated and trended for further analysis.

> *"Financial analysis is needed to give us a per-service cost / margin breakdown so we can crisply decide where a given service is more profitable, not just which location." (F17)*

Additionally, organization-related aspects influence cost. These include labor models, shared services models, and the cross-business utilization of labor. When costs and revenues can be aligned, P&Ls can be scrutinized. Discoveries of improvement opportunities can then be leveraged. High-flier salaries can destabilize pay structures, as an example.

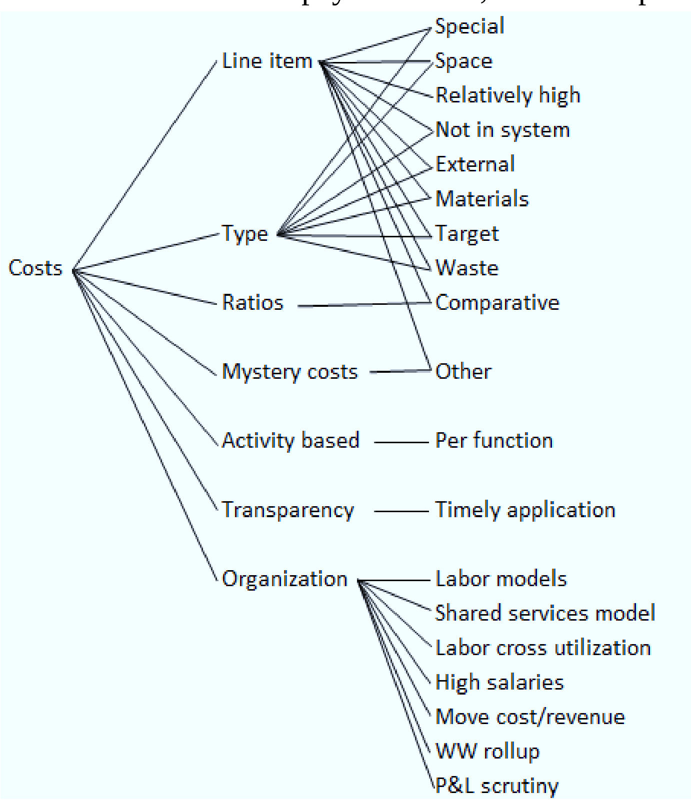

Figure 3. ***Cost theme map. This figure maps costs as a theme category into descriptive sub-groupings.***

In summary, the data suggests that cost awareness and control in a BU by P&L owners is important for financial performance accountability and control. Clarity around cost allocations driven by a useful transparency can help BU leaders make timely decisions. This can accelerate positive trends and mitigate the influence of negative trends. Line items in the P&L's contribute to information that is related to a data type, or a variable. These variables can be leveraged to create meaningful performance ratios. These ratios can be exploited for the discovery of best practices that are effective. Typically, a location will have a methodology that could be exploited by other locations for the benefit of that location's profitability. The proliferation of best practice is inhibited when the ratios cannot be used due to accuracy issues. The following propositions summarize the key findings of this section:

Proposition.5 (comparative ratios): Comparative cost-ratio trend analysis is difficult to leverage if timely posting of accurately-placed cost line items are not made transparent to P&L owners.

Proposition.6 (value mapping): Cost is fundamentally activity-dependent, where the labor associated with a task must be mapped to the value producing activity regardless of where it came from.

Proposition.7 (arbitrary allocation): Arbitrary cost allocations used to bolster reporting optics, or delay negative results reporting, obfuscates true performance and the ability to trend deployed cost mitigations.

Finance action:

Finance, as a support function, has a critical role in successfully completing focused actions that result in the realization of growth. They may present trends that lead to the discovery of opportunities. They facilitate the allocations of costs and revenues that are present in the production network. A local business unit may discover a growth opportunity that is beyond their capability. The global supply chain is an advantageous organizational structure in these cases as the capability to perform is in the network and can be exploited through the global structure. Finance facilitates the need for self-interest-based motivation by assuring the business unit that discovered the growth opportunity is rewarded for doing so. Finance, through reporting, provides ratios that guide the geographic leader by providing performance feedback. This allows for immediate mitigation.

"[I] ensure that financial modeling capability is present for quick analysis." (SF337)

The selection of the opportunity is aided by the provision for capital that enables the network by making technology or capacity available. This funding is validated as necessary through tools like value stream mapping and feasibility studies. The opportunity is then exploited with the help of finance as they provide review information about the contribution of the opportunity. A valid track record of success as measured and presented by Finance helps to create growth momentum.

The focused action tracker provided 52 rich data descriptions in seven theme categories. The first theme category related to focused action regarding establishing policies for revenue recognition and cost allocations. Furthermore, assets were used by various business units. The cost to store these assets needed to be allocated to the business units. An allocation strategy was a focused action item that was deployed. Finance provided analysis for the BUs. Focused action in this area included budget analysis, LOB profitability analysis, cost and revenue allocation, P&L reports, and other reports. Finance assisted with client financial issues that helped with profitability. This included assessments of billing line items that were omitted and opportunities for increased profitability. It also included actions associated with budget and cost mitigation plans. Alignment in the financial reports helps with the analysis of workflows and functions as they can then be compared like-for-like. This helps to uncover opportunities for improvement. Reports also help to create alignment around cost effective methods; however, reports are only effective if they are similarly mapped. Reports, and the associated analysis, allow finance to discover and assist with savings initiatives. Consequently, focused actions, as illustrated in the figure below, included the reduction of asset costs, automation, the sharing of best practices, and the better use of hardware, materials, and labor together with cost reductions and the elimination of waste.

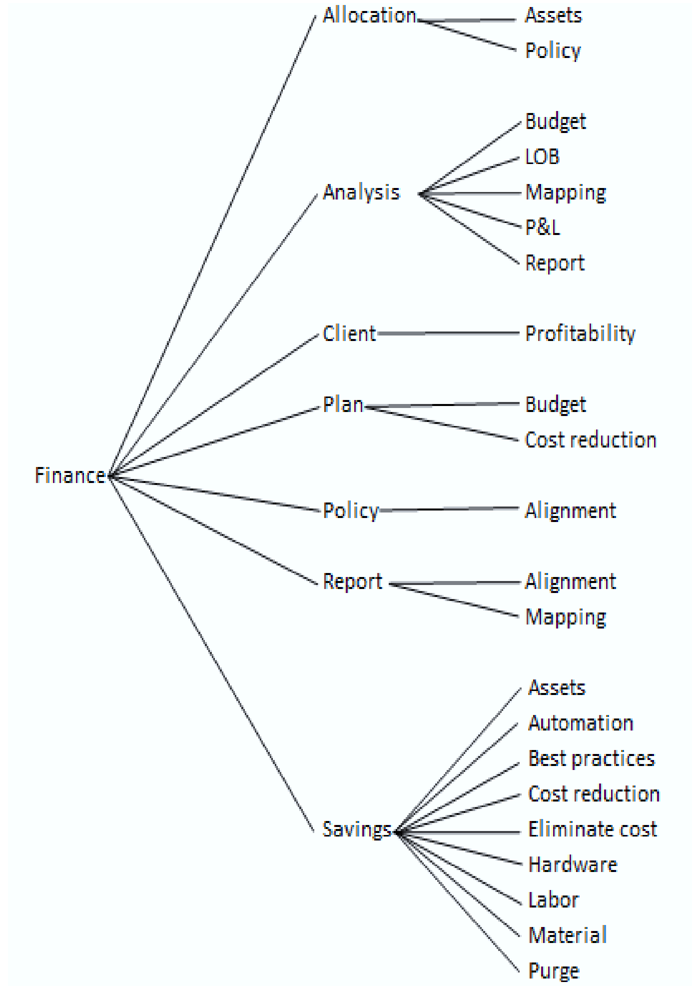

Figure 4. ***Focused action: This finance theme map illustrates finance as a theme category using descriptive sub-groupings.***

Conclusion:

A single set of meaningful and measurable goals need to be aligned with the firm's mission and vision. This promotes a common understanding of performance, allowing high performance workers to achieve success in an operation that is measured, monitored, and knowledge rich. Selected actions, when focused, promote alignment and unity. Specifically, an organization can drive synergistic focused action, that when exploited can realize dynamic scaling, including expansion, consolidation, the integration of business units, and a competitive advantage. The energy consumption needed to accomplish patching, or other focused action, in an organization that is aligned to realize local synergistic opportunity is minimized. This is because an organization is intrinsically and efficiently aligned. The structure is connected and tasks are shared by relevant functions needed to achieve growth synergies. The relevant sequence of tasks are quickly discovered and effectively executed. This can lead to mutual benefit between business units that collaborate. This is only a part of the solution. Aligning financial functions with functional areas is another part of the challenge.

The significance of being aligned and collaborative is that it helps the MNE achieve profitability realization. Chaos is present in a dynamic market and performance issues are imminent regardless of the environment. Alignment, on the other hand, accelerates the creation of trust and collaboration. Selected actions guided by goal alignment become simpler for all involved, as there is less noise. It is clear that scaling is dependent on a singular mindset that is tuned to the addressable market and the directional strategy.

The primary contribution of this article is new empirical insights about how financial alignment and allocation contribute to collaboration and reward that, consequently, enables growth realization in an MNE. These results are, therefore, relevant to the achievement of sustained profitability and competitive advantage by focusing a multi-unit firm on business unit relatedness and strategic complementarity. Seven propositions were extracted from the participants instigated by a precipitated event that contribute to theory. These outcomes that influence change efficacy are described and useful for sustained corporate advantage.

The author added to theory regarding financial performance driven by alignment and allocation through this empirical study. The study made clear that cost mapping is critical to the measurement of business-unit performance. These measurements show up in reports, but are useless if the talent does not use the information to better the organization. The participants in the study identified items in existing financial reports that required attention to enhance clarity in reporting, such that opportunity discovery and appropriate action can be taken. Secondly, misallocations are a source of frustration for P&L owners that are accountable for their financial performance. Thirdly, cost awareness and control in a BU by P&L owners is important for financial performance accountability and control. Finance, as a support function, has a critical role in successfully completing focused actions that result in the realization of growth.

The author anticipates that these propositions will stimulate further research as organizational behavior is significantly complex and situational. These observations are also meant to stimulate further thinking. By studying the distinctive features of achieving financial alignment, the author hopes that interest has been sparked on researching the design and application of further more effective and efficient methods and management techniques.

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