Facing competitiveness challenges and transfer pricing compliance issues: Development of an Implementation Framework for Procurement Restructuring

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1. INTRODUCTION

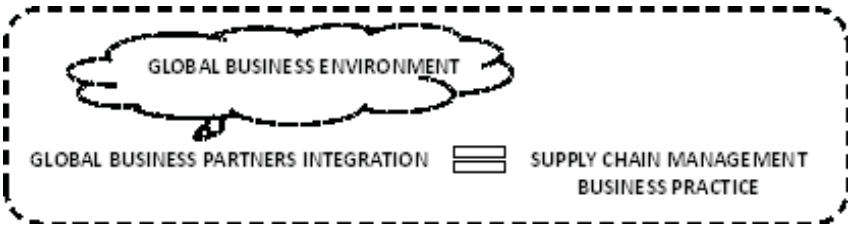
Global competition pressure is shortening the time span for new operational business practices as means to gain cost reduction, and enhance firm´s competitiveness. Upon this view, materials and components are produced in countries where competitive factors are available to produce the best combination of cost benefit, while final production gathers all of them in another location and then taken to countries where the markets are creating global strategies in which one firm seeks to gain competitive advantage on a global basis through optimal arrangement of value added activities (Kotabe, 1992:2; Deloitte, 2005). Such production and commercialization practices are now linked as Supply Chains integrated by suppliers, manufacturers, distributors and customers working under synchronization and alignment principles to generate value for all the supply chain members (Erosa, 2011). As the Supply Chain members interact, transact and collaborate on activities ranging from Research and Development, Collaborative Planning and Forecast (VICS, 2002) to Product Delivery, the business scenario has been increasingly changing to a new one where a growing number of companies are part of complex supply chains spanning multiple countries from different continents. To manage this complex environment Supply Chain Management (SCM) emerges.

In a broad definition SCM is considered (Mentzer et al, 2001) as "a set of three or more entities (organizations or individuals) directly involved in the upstream (supply) and downstream (customer) flows of products, services, finances, and/or information from a source to a customer". Recently SCM definition has been focused (Lambert, 2008; Naslund & Williamson, 2010) as "the integration of key business processes from end-user through original suppliers that provides products, services, and information that add value

for customers and other stakeholders". For SCM operation a crucial process is the acquisition of goods, services, components, materials, and works from external sources (Vachon, Halley & Beaulieu, 2009; Chen, Daugherty & Roath, 2009; KPMG, 2012*),* this process is termed *Procurement.*

Diagram 1

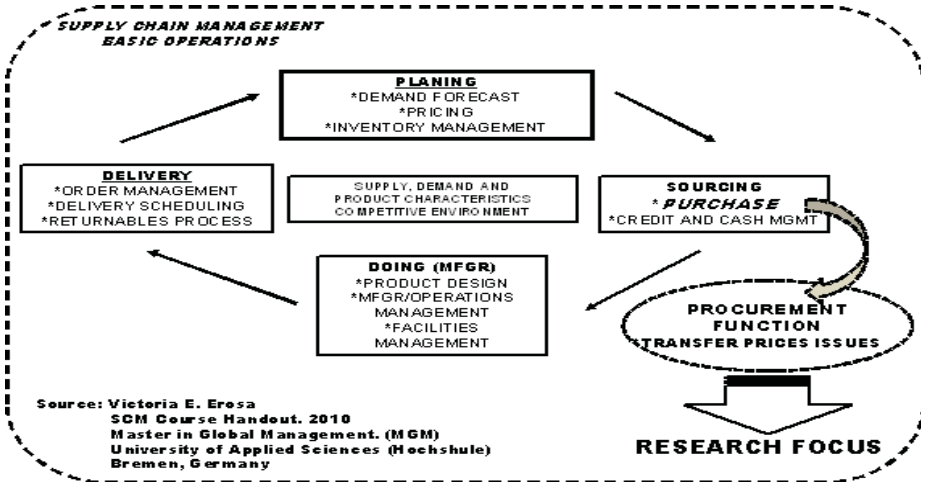
Supply Chain Management Environment



Defined by the Business Dictionary (2013) as the act of obtaining or buying goods and services, procurement process include the preparation and processing of a demand as well as the end receipt and approval of payment. Being managed as an organizational function within the firm´s structure that also deals with the *transfer prices* of the acquisitions, Procurement Management includes the attention to regulatory and taxation compliance requirements. As a firm entering into a Supply Chain Management practice is adopting an integrative business strategy -which represents a strategic change envisioned to enhance the firm´s competitiveness (Monzcka, Blascovich, Markham et al, 2010)- any shift in functions, assets or risks should also bear in mind *compliance* requirements from a regulatory and taxation perspective as well. Due to the key role of procurement in SCM, the interest in the organizational changes required to support minimization of transfer prices compliance issues emerged (Diagram 2).

Diagram 2

Research Focus in SCM Context



Currently, most accepted procurement definition is (Mangan et al. (2008, p.76) as "the processes involved in the acquisition of goods and services, encompassing all engagement required in the product/service *sourcing*, *purchasing* and *delivery* from the suppliers to the end users (in this case the firm)". A 2010 survey by Ernst & Young found that this area is considered as critically important by 74% of the companies; furthermore, two thirds of them recognize the increasing importance in the previous two years, given amongst others the augmentation in "significance, intrusiveness and scope" tax authorities around the world are placing in their review processes. Currently the discipline is evolving from the stewardship services, mostly focused to deliver cost services to a strategic enabler of the whole supply chain, especially as procurement deals with the inbound cycle of supplies *towards* the firm (Lee & O'Marrah, 2011; KPMG, 2012).

Focusing in the procurement function operated in a SCM environment (Erosa, 2011), this paper presents results of a research project conducted to (1) develop a **framework** for the implementation of changes in procurement structures that *enhances competitiveness* of the SC and compliance factors, and (2) define a **flowchart** to guide the implementation of changes in the procurement structure of a Multinational Enterprise, in order to *minimize the Transfer Pricing compliance issues*.

2. THEORETICAL OVERVIEW

In the operational dimension, Supply Chain Management deals with integrated key business processes (Mentzer et al, 2001), supported by information systems interconnection for automated connection of planning, production and distribution processes among business partners. The set of processes, procedures, methods and rules followed by a firm in the pursuit of its objectives is termed business practice (Business Dictionary, 2009). Under these concepts, Supply Chain Management Strategy requires a collaborative set of business practices enabled by a technology infrastructure compatible among all Supply Chain members (Erosa, 2011). The view of procurement as a business practice is supported being reasonable to consider that the operational organizational structure performs a function through a procurement unit. The notion of companies´ relations with suppliers and customers as external forces to work with using the firm´s resources as business strategy enablers, provides a theoretical reference to be used as analytical tool as is presented in Diagram 3.

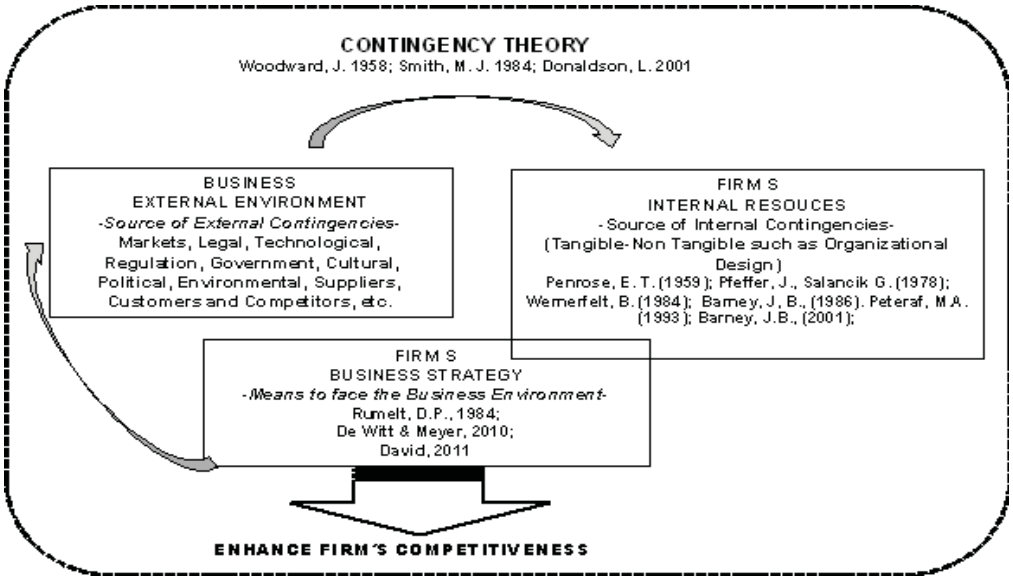
Contingency Theory

Literature in the matter declares that companies face among the important contingencies that firms face are suppliers and distribution, customers and competitors as well as Government policies and regulations (Woodward, 1958). Recent organizational theories combined in the Contingency Theories, state that "variable *x* has a *w* effect on variable *y*" creating the paradigm that effective fitting of the characteristics of the firm to the contingencies that affect its performance (Donaldson, 2001). These contingencies

include the external business environment, organizational size and strategy, which shall be aligned with the organization's structure. This "alignment" or "fit" is defined by the same author as an adaptive change, which underlies the heuristic nature of decision-making: accepting that no optimum is feasible, only good solutions, as decision making is: (a) a process, consequently the implication of dynamism, means that contingencies are always changing, increasing uncertainty because of the limited information; (b) the limited human processing capacity and complexity absorption (bounded rationality) as mentioned in Robbins (2003:624), and (c) decision making is evolutionary and adaptive: new capabilities are built contingent to the current capabilities (Sanchez & Heene, 2004:34).

Diagram 3

Research Theoretical Support



The procurement arena is not exempt of contingencies; therefore a key analytical tool used in this research is *Contingency Theory* (Smith, 1984; Donaldson, 2001). This theoretical body suggests that the combination of the external environment faced by a firm and internal organizational resources both influence a firm's strategy (David, 2010 :252-3), which ultimately defines an organization´s structure as the lines of authority, communication and information flow adapt to changes it. However, and being the case for many Supply Chain (SC) strategies, this influence may not always be explicit and the outcome of structural changes may be delayed, as a recent survey revealed (Monzcka, 2011).

Resource View Theory

Based on Penrose seminal work, Resource View Theory suggests that firm performance is determined by its resources (Penrose, 1956; Pfeffer &Salancik, 1978; Wernerfelt, 1984; Barney, 1986; Peteraf, 1993; Barney, 2001). Procurement is the organizational function that allows the firm to acquire the resources needed for operational performance. In SCM environment procurement operations tendency is to e-Procurement term that stands for the use of electronic means as procurement operations enabler. For this reason in today´s Global Business environment technology is a firm resource to support business activities that create advantage in the competitive position. Being technology a strategic resource (technology infrastructure) and intangible in nature (technology operating competences), differences among firms in the same industry can be explained by the different distribution of resources among them (Amit & Schoemaker, 1993; Michalism et al, 1997). Jabbour and Mucchielli (2002) declare that when the different levels of technology are considerable between the suppliers and the customer firm, the first will be reticent to sell because the customer firm has no capacity to absorb this technology, and in consequence to create benefits to an integrated Supply Chain.

Strategic Management Theory

Under this theory, the firm is considered as the unit of analysis and subject to be managed with profit creation purposes. To face business environment challenges, external to the firm by nature, a business strategy –or set of them- is selected and implemented aligning internal resources as strategy enablers (Rumelt, 1984; De Witt & Meyer, 2010; David, 2011). Strategy types range from intensive strategies requiring intense use of capital such as R&D and Product Development strategies, to defensive strategies of the kind of retrenchment, joint venture creation, divestiture and others oriented to reduce operational costs. In between this wide range are the *integrative type strategies* oriented to integrate suppliers (backwards integration) and customers (forward integration) to the firm´s operation to gain efficiencies and cost reduction in the operation process. Another strategy of the kind is competitors integration (horizontal integration).

Due to its nature, Supply Chain Management is identified as an integrative integration in which the firm works in collaboration with suppliers and customers in search of value added processes that create benefits for all the chain members. As a main feature, in SCM competitors integration takes place setting Product ID and electronic communication standards that are operated by standardized –and sometimes shared- technologies in order to enhance the chain value added processes.

3. THE RESEARCH STUDY

Following the Consistency Theory principles (Smith, M. J. 1984; Donaldson, L. 2001), firm´s external environment, - that comprises markets, Legislation, technology, regulations, suppliers, customers and competitors- is faced using firm´s resources (inter-

nal environment) organized and managed accordingly to a determined business strategy. Therefore, a firm working under an integrative strategy such as SCM requires organizational changes in order to align its resources to the strategy implementation. Although increasingly important, the issues that surround organizational change and its implementation have been largely overlooked by researchers and academia (Johnson & Leeders, 2001; Trent & Monczka , 2003; Hartmann, Trautmann, & Johns, 2008; Trautmann, Bals & Hartmann, 2009; Glock & Hochrein, 2011) given the evidenced gap between SC perceived strategic importance and the implementation of initiatives (Monzcka & Petersen, 2011). In this research study, the Unit of Analysis is the Multinational Company (MNC) due to its Global performance, SCM practices/processes adoption and representativeness of the procurement units in the organizational structure. For implementation framework and implementation flowchart development, derived data analysis of the two major surveys on the matter (Deloitte Research, 2005; Ernst & Young, 2010); Ernst &Young, 2011) was done to identify main procurement processes and activities performed by the correspondent organizational unit.

The exemplification (or hypothesis testing in quantitative studies) is done using a *case study* developed for a company that perform a simple industrial process, where materials are sourced based on pre-required specifications (bill of materials) and operates in different jurisdictions with multiple manufacturing facilities in different countries, so that competitive and compliance issues can be exemplified. The case study setting is in Latin America, presented as an ANNEX of this paper.

Research Questions

Competitiveness Driver. Basically, procurement in Multinational Enterprises (MNE) is aimed at being globally efficient while locally responsive and to leverage the information and learning processes in a worldwide scale (Trautmann, Bals & Hartmann, 2009). From a general SC point of view, and as defined by Ernst&Young (2011), the *competitiveness* of a company, given the current and ever more complex market conditions shall address two main issues, (1) the enabling of financial margins, thru optimization and improvement of existing structures and processes (Ernst & Young, 2010), that provide *cost efficiencies* in order to have enough resources to dedicate to the second issue; (2) the encouragement of growth, thru the inception of new sources of revenue, especially in Emerging Market Economies or EMEs (Deloitte Consulting, 2011). Upon this reasoning, the objectives of this study are to develop (1) a framework for *restructuring the functions of a procurement organization that includes and (2) a flowchart with detailed -step by step- implementation procedures*. Sources of information and data are literature review and empirical evidence that is systematically collected in survey reports published by consulting firms and research centres (Accenture, 2009; Accenture 2011; Deloitte, 2011; Ernst&Young 2010; Ernst & Young, 2011; PwC, 2011; KPMG, 2012; Gartner, 2012).

The first objective is operationalized in a first Research Question:

R.Q.1. How to guide the implementation of changes in Multinational Enterprises (MNE) of the procurement structure, in order to *enhance competitiveness* of the Supply Chain?

Compliance Driver. The constant undertaking of changes in order to enhance competitiveness poses also large constraints in the *compliance* with regulations and taxes across local jurisdictions and in the international arena (Moffett, Stonehill, Eiteman, 2003, ch. 10). In this regard one issue gaining increasing importance over the years is Transfer Pricing (TP). This is defined as "the prices at which an enterprise transfers physical goods and intangible property or provides services to associated enterprises" (OCDE, 2010. Art 11). Internationally, TP issues are dealt by tax authorities under the guidance of the principles established by the Organization of Economic Cooperation and Development (OECD, 2010. Art 11).

Within this context, the key concepts of the Resource View Theory (Penrose, 1956; Pfeffer & Salancik, 1978; Wernerfelt, 1984; Barney, 1986; Peteraf, 1993; Barney, 2001) are adopted to explore the firm´s available tangible and non-tangible resources used to support the procurement function. Using this perspective, tangible resources such as procurement technology platform are analyzed and non-tangible resources of the kind of organizational structure and processes operated are identified. Based on this reasons, the second research objective is oriented to identify the process to implement changes in the procurement structure to minimize the Transfer Pricing compliance issues. This objective is operationalized through a second Research Question.

R.Q.2. How to guide the implementation of changes in Multinational Enterprises (MNE) of the procurement structure in order *to minimize the Transfer Pricing compliance issues*?

Propositions

Managerial implications of a business restructuring can be divided in strategic and operational level. The focus of this work is on *the conception of operational strategies and their implementation*, since it is assumed that there is a tight linkage among the two (Proposition 1) processes. To gain understanding, an introduction of the strategic level implications of a shift in the organizational structure and design of the procurement function is given.

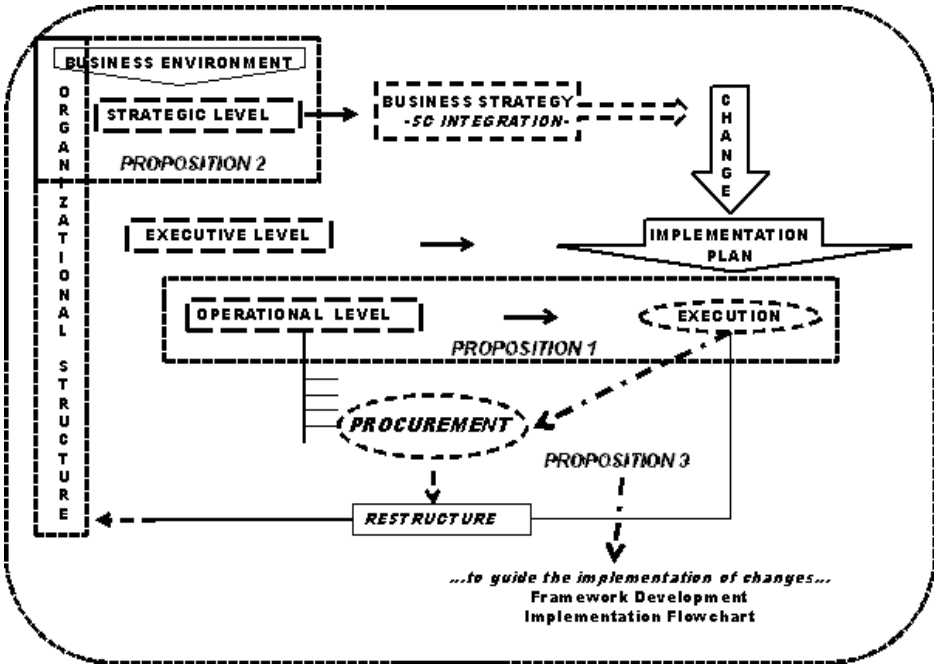
Proposition 2: The inception process of organizational restructuring shall be successful only to the extent the following contingent factors are taken into consideration: (1.a) the environment; (1.b) the organizational strategy and (1.c) the structure.

Proposition 3: A logical chain of actions must take place in a sequential and systematic manner in order to guide the development and further implementations of organizational structures.

The complexity of the phenomenon explored in this research is presented in Diagram 4, revealing the network type structure of the existing relations among decision-making level, operational or execution level at functional unit (in this analysis procurement) and organizational structure changes. The diagram supports the presence of two dimensions of organizational change (1) a general perspective of change at organization level (diagram general structure) and the specific dimension at organizational *unit* level (procurement or other). This network vision is a useful tool for top management level (CEO, etc) to understand the magnitude of change required to implement a new business strategy as well as the impact of it on the full organization. As a tool, the diagram is adaptable to extensions by functions, programs/projects, steering committees, outsourced teams or any other organizational unit of the kind. The diagram explains the reasons and allocation of an implementation framework.

Diagram 4

Research Propositions Network



As seen before, any shift in functions within a MNE that is conceived to enhance *competitiveness* can only achieve its desired effect if the *compliance* factors are also taken into consideration. The aforementioned Ernst &Young (2011) survey reveals that half of the companies had undertaken a SC optimization, or centralization, of the business management functions in the previous four years, with most of them having considered the tax implications in the restructuring of their functions. This holistic approach can also be contrasted with findings from other survey (Deloitte Research, 2005) in which the individual tax or SC optimization lead to an increase of 21% and 45% respectively of after tax profit, whereas a combined approach can double the benefits, increasing the after tax profits to 98%.

4. RESULTS

4.1 The implementation guide in of changes in the procurement structure of (MNE)

4.1.1 Framework Development

To reach the strategic objectives a key requirement is Strategy execution, this involves the firm staff and/or consulting staff. A new strategy brings changes into the organization –such as re-structure- and its processes, therefore implementation plans are developed (Proposition 1). For this purpose implementation plans are developed integrating a detailed listing of activities, costs, expected difficulties and schedules required. To be effective, implementation plans should move from paper to action, meaning that the plan must be *executed* by persons (Proposition 2). Being Strategy a top management level decision, implementation is in the Functional/Operational Management level arena, while the execution corresponds to each of the operational units responsible. Upon this reasons, a structured implementation framework is considered to be useful to guide the process of changes in organizational units involved in such changes (Proposition 3).

Focusing on RQ. 1, to develop a logical and systematic sequence of actions for changes implementation –considering procurement as application area-, key considerations were taken into account. Following the alignment principle (Henderson & Vencatraman, 1999; Luftman, 2000; Chorn, 2008) Supply Chain (SC) objectives, are met only through the proper balance between *structure, people and technology*, and its internal and external integration, collaboration, and coordination, which, as proposed by Kim (2006) implies a two-step paradigm shift from functional-to-firm focus; and then towards a SC Strategy focus. Additionally, *SC´s resiliency and agility shall be met in the best tax-scenario possible*, one that complies with local and international regulations that allows the firm to minimize its overall tax burden and risks, for both the company as a group and each individual subsidiary (Ainsworth & Shact, 2011). Facing this structuring challenge, to guide the implementation of organizational changes in the procurement unit, based on Kim´s (2006) approach, *an implementation framework was developed*. Presented in Diagram 5, the framework targets the basic building blocks of the supply chain

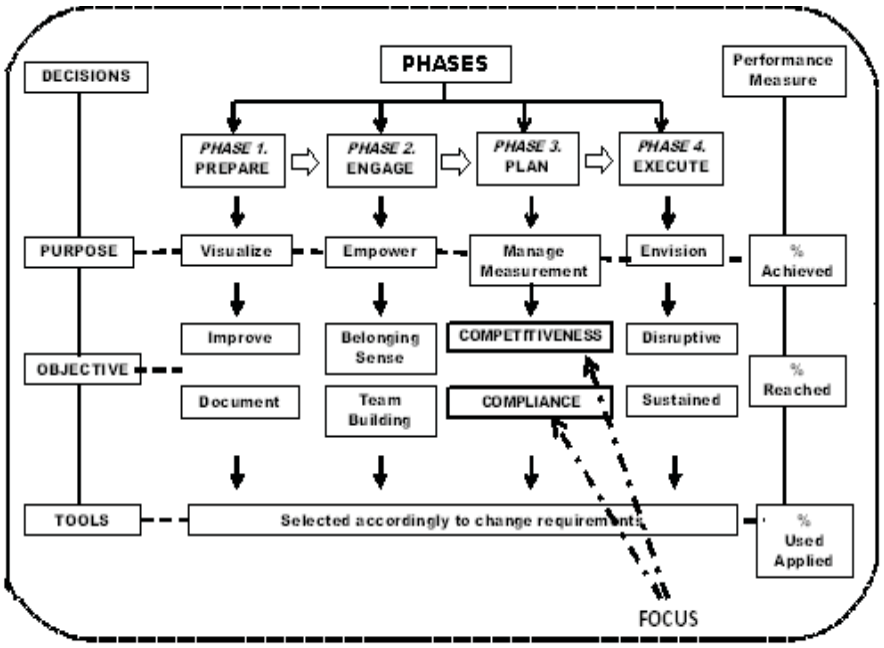
transformation process as explained above, with particular emphasis on the structure and people dimensions. The framework is termed PEPE after the acronym of its four steps/ phases procedure; (1) **P**repare, (2) **E**ngage, (3) **P**lan and (4) **E**xecute.

Decision Making in the Framework

As presented in Diagram 5. Once that Top Management of the firm has made the major strategic decision of the business strategy or set of business strategies to be implemented (David, 2011), a second group of decisions regarding specific purposes and objectives is derived in order to settle the basis for the strategy´s performance measurement. Within this context, the final decision is related to the selection of tools to be used for the strategy execution.

Diagram 5

Strategic Changes Implementation Framework developed to answer R.Q. 1.



4.1.2 The Implementation Flowchart

Decision making to assure vertical alignment is a major task of the change implementation team -internal, external and/or outsourced- to assure two venues of execution alignment: (1) actions aligned to main vertical decisions and (2) actions

horizontally aligned among them. The process of change starts with execution of the actions included in the four steps/phases, each of one has its correspondent specific objectives and tools. Each Phase components and its relation with SC are explained in preparation for the Implementation Flowchart development.

Preparing Phase 1: Visualize

Preparation refers to gathering data and transforming it into information that allows for stakeholder to *visualize* the *status-quo* of their processes and relationships. The main *objective*, following both contingency and constraint theory is to assess the environment, the internal and external factors that affect the company's performance and relationships (Kim, 2006). The visualization of factors is the key to balance opportunities, threats, and the capabilities necessary to face them. Regarding the *tools* used for this purpose, in order to "see", a series set of models and mapping techniques are presented based on the literature review. First Value Stream Mapping (VSM) basically a paper-and-pencil tool that allows communicating, planning and managing continuous improvements in processes through the reduction of waste, considered as any step in a process that either doesn't add value to the total stream or prevents the system from flowing smoothly. An additional perspective can be added to the VSM: impact on cost of the different activities that encompass the process chain. This is justified by the argument that processing costs, as they are usually captured as an overhead and therefore at a too high level of aggregation, it distorts the real impact on individual processes by appointing cost based on assumptions that might differ from the reality (Wicker, Bernon, Templar et al, 2006).

Dealing with Supply Chain Strategy the assessment of cost has traditionally been a challenge in SC mapping because of the limitations of traditional accounting systems. That is why the Activity Based Costing (ABC) method was introduced in order to identify cost drivers into activities, disaggregated by every process activity's cycle time (not only in volumes).Additionally, the implementation of any proposed initiative can only be fully attained if everyone understands the role they play. For this matter, a tool like the Business Process Modeling Notation (BPMN) is proposed, which allows to graphically representing the architecture of networks involved in the value stream.

Engagement Phase 2. The People Dimension

After the mapping and understanding of the current state of the supply chain, comes the effective *engagement* from the stakeholders involved in the process. This can be done by (a) enhancing the sense of belonging: shifting from a passive, act-on-command only to an active, *kaizen* (plan, do, act, check) approach; and (b) building a strong, driven team, empower them to cooperate and collaborate to enable ongoing contributions and shared benefits. In this point, is crucial to consider that as the changes implementation impact at *individual* level, -also referred as last user- organizational culture issues

should be taken into account (Barney, 1986; Erosa, 2012). Relating to point (a) The so called *strategy formation* aims at the boosting of entrepreneurship, focusing not only in technology, information and measurement, but also in individual and group soft skills, such as collaboration, teamwork and empowerment (Driedonks, Gevers, Van Weele, 2010). On the other side, point (b) calls for the establishment of synergic and fruitful relationships that allow trust among the parts, since it represents "the cornerstone of true collaboration and joint decision making" (Kim, 2006). There are two key concepts related to motivation and behavior (Conger & Kanungo, 1988): *self-efficacy (*need for self-determination) and *empowerment,* enablement through its four dimensions: *potency*, related to the effectiveness; *meaningfulness*, related to relevance attributed to tasks; *impact*, related to the significance in the "big picture" and *autonomy*, related to the freedom in decision-making.

Planning Phase 3: The Measurement

The process of measurement includes the identification of what is to be measured, how is to be tracked and how will it be communicated (Chen, Kanfer et al, 2006). A measurement implies the acknowledgement of something, and this search for recognition can be a driver towards performance (Cai, Liu & Xiao, 2009; Brudan, 2010). Table 1 presents some of the measurement tools used for strategy´s performance measurement.

Table 1

The Implementation Framework Tools. Selection of Measurement Models

TOOL	DESCRIPTION
The Performance Prism Neely, Adams & Kennerley (2002)	Proposes a mindset to introduce *proactivity* in the measurement definition process, and therefore quest towards the building of a continuously improving culture by defining "who" is to be served and "what" is expected from both sides (top and bottom of the prism), then "how" arises as the combination of the walls of the prism which enable the "fitting of gaps" by combining capabilities and processes.
Balanced Scorecard and Procurement KPIs Kaplan & Norton (1992) Parmenter (2007) Taticchi, Tonelli & Cagnazzo (2010)	Used to have a horizontal end-to-end view of the company's aims which classically includes the view of the four main business drivers related to *effectiveness* -financial and customer perspective- and *efficacy* -internal processes and innovation learning and growth-. Its main advantage is the balancing between hard quantitative financial indicators and rather soft qualitative indicators. This tool includes three deliverables a BSC-map, the summary of strategic goals, indicators and targets and the verbal description of the other two.

TOOL	DESCRIPTION
Supply Chain Operation Reference Model (SCOR) Supply Chain Council (2010) Li, Su, Chen (2011) Persson (2011)	Is a "strategic tool for describing, communicating, implementing, controlling and measuring complex supply chain processes to achieve good performance". This is done through the use of a modeling tool based on *standardized benchmarking parameters* that allow guiding the measurement of SC operation through a top-down approach divided in levels of aggregation.
Strategic Supply Chain Priorities and Capability Assessment Framework Gunasekaran, Patel, & McGaughe. (2004) Monzcka and Petersen (2011)	Allows for an easy prioritization of the improvement options really and readily available to a firm. The framework is based on two matrixes, first one assess the business strategy impact and its implementation complexity; the initiatives with the highest impact will then be measured in terms of the business capabilities (can it be done) and capacities (can it be implemented as required). The importance of this model lies in the simple visualization of how coordination and collaboration are basis for the integrating of process.
The Sand-Cone Model Newman, Hanna & Gattiker, (2009)	Being procurement performance closely interlinked with other departments and other suppliers, hence the need of the aforementioned paradigm shift, it is important to assess the stage of the cross-functional, cross-supply chain integration. One tool that has been proposed to do so is the Sand-Cone Model, which takes four basic competences, the first two aimed at information sharing to bolster trust and then the last two about the value enhancement this is additionally contrasted with the *levels of actual integration of functions*.

4.1.3 Guiding Changes: Implementing the Flowchart

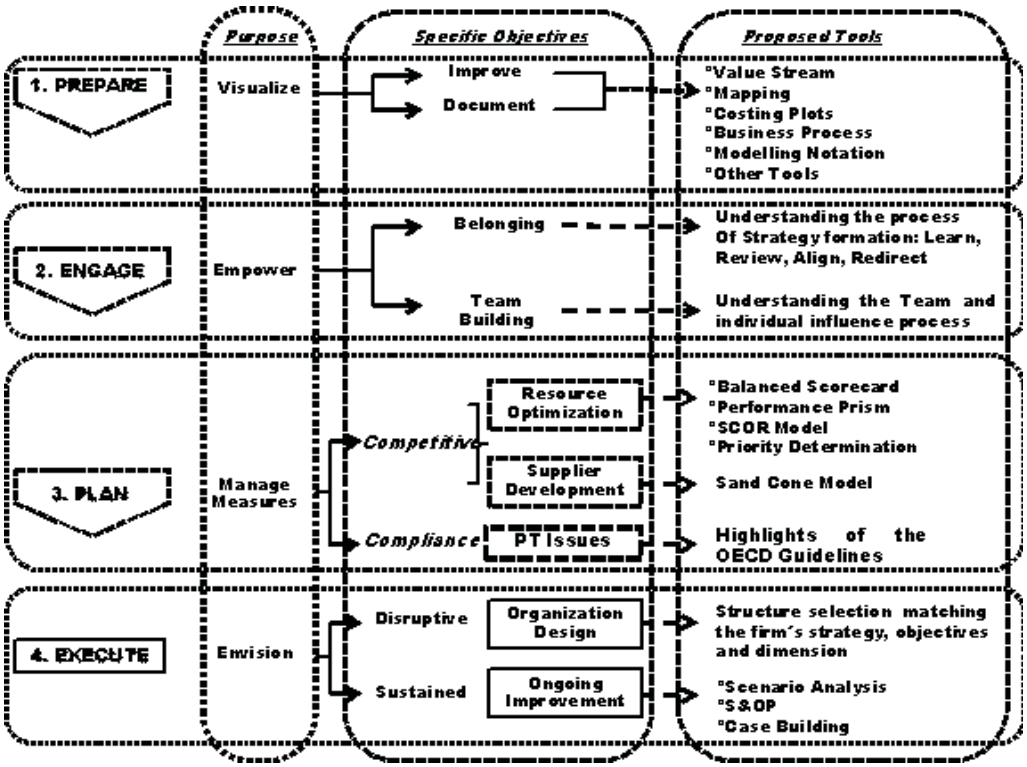
The Implementation Framework developed as a tool to guide changes in process and organizational structure is flexible for adaptation to the whole organization and/ or to a specific function (Functional Focus), -as seen for procurement- introducing the strategic objectives and their matching measurement tools in the correspondent blocks. This is the necessary requirement to prepare the Flowchart for changes implementation. It is convenient to underline that strategic objectives and measurement tools are the *flexible* element of the Flowchart, according to its functional unit use. Defined in the classic literature of the matter (Gilbreth & Gilbreth, 1921) as "a type of Diagram that represents an algorithm or process showing the steps as boxes of various kinds, in their order by connecting them with arrows", the Flowchart is considered to be a useful tool to document major steps that guide the implementation of changes, mainly for its characteristics regarding "shows step-by-step progression through a procedure or system specially using connecting lines and a set of conventional symbols" (Merriman-Webster Dictionary).

Functional Focus in the Implementation Flowchart

Applying the ideas of *functional focus* and the *process step-by-step* to Procurement function, an implementation flowchart is developed to guide the implementation of changes in Multinational Enterprises (MNE) of the procurement structure in order *to enhance competitiveness* of the Supply Chain *as well as to minimize the Transfer Pricing compliance issues.* Diagram 6 presents the introduction of Procurement Objectives –competitiveness and compliance- on Phase 3, as well as the non-exhaustive set of tools proposed to implement changes in the procurement which means that the firm should select the one that fits its requirements and availability. As presented, the change process covers the vertical (each phase sequence) and horizontal (phase components) alignment criteria, two conditions that provides consistency and assures integration of the actions required for the change. Such a flowchart is also a useful tool at strategic level for ongoing monitoring, measurement and control of the change process and its outcome.

Diagram 6

Procurement Implementation Flowchart. Framework Step Outline

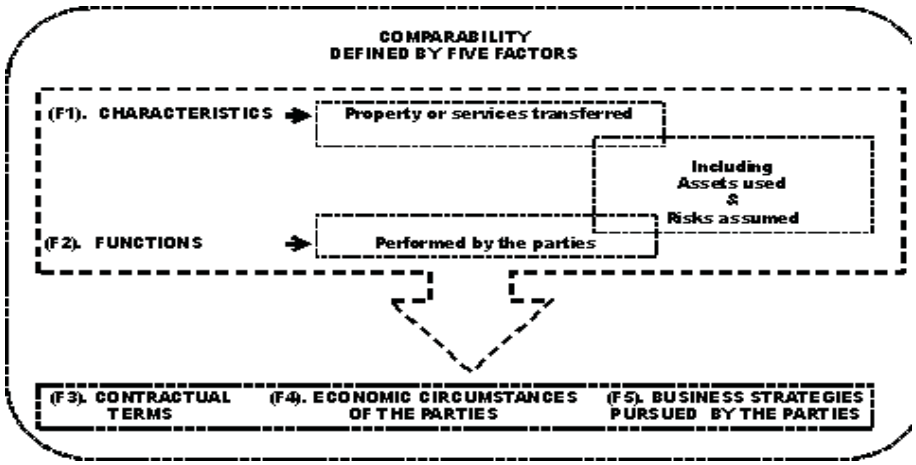


4.2 Assessing the Full Synergic Potential: the Transfer Pricing (TP) Considerations

From the Implementation Framework to the Implementation Flowchart developed here two main blocks included in the *objectives* of the *planning phase* are competitiveness and compliance. Is clear in Diagram 6, that the *objective targeted to competitiveness* deals with resource optimization and suppliers development. The reason behind the integration is the nature of procurement regarding **charges** made between related parties for products, goods, services or use of property including intangible property such a copyrights or royalties. Upon this basis, resources matters deals with charges between business parties and their correspondent transaction taxes (Ryals & Rogers, 2006). Transfer Pricing refers to the setting, analysis, documentation, and adjustment of charges among parties or members, while Transfer Prices refers to the *charges* made between controlled or related legal entities such as operational units in a MNC.

Diagram 7

***Comparability definition of the OECD Transfer Pricing Guidelines** (2010)*



Adopted in more than 60 countries, TP rules are based mostly on "arm´s length principle" referring to the establishment of transfer prices based on analysis of pricing in *comparable* transactions between two or more related parties dealing at arm´s length (OECD 2010a). Importance of transfer prices for taxpayers and tax administrators comes from the fact that "they determine in large part the income and expenses, and therefore taxable profits, of associated enterprises in different tax jurisdictions" (OECD, 2010a; OECD, 2010b). This statement supports the notion of consider TP as a profit allocation method used to reflect allocation of resources among the firm´s components/branches and to calculate net profit or loss before tax payment to tax jurisdictions.

Due to the mentioned reasons, *comparability* is the basis of TP, and it is defined in article 1.36 of the OECD (2010) guidelines in five factors (Diagram 7), which include but are not limited to: "the characteristics of the property or services transferred, the functions performed by the parties (taking into account assets used and risks assumed), the contractual terms, the economic circumstances of the parties, and the business strategies pursued by the parties".

The *correct understanding* of the controlled transaction of Transfer Prices has deep implications in the outcome of the analysis and of its quality -therefore the likelihood that the tax administration will be satisfied with it-, includes several factors:

1. The selection of the *transaction* in terms of:

♦ *Stent*, "transaction-by-transaction basis" (OECD, 2010, art. 3.9); and

♦ S*cope*, based on the one bearing the least complex functional analysis. (OECD, 2010, art. 3.18).

2. The selection of the *comparable* in terms of:

♦A*vailability* of internal and external sources and

3. The selection of these:

♦ "*additive*" based on previous knowledge of certain potential comparables and

♦ the other "*deductive*" based on the filtering and selecting -according to quantitative and qualitative business activity criteria- from broader base of comparables.

4. The appropriateness of *adjustments*: made to eliminate or diminish the differences that may arise for accounting practices, working capital and segmentation of financial data, amongst other.

The timing of the determination of TP is also an important concern because it can be established in a price-setting manner, *ex ante*, by analyzing the implications and settling prices of prospective transactions, or in a outcome-testing manner, *ex post*, by demonstrating that the transactions were made in regard of the arm's length principle. Although both approaches are used and valid, the later might increase the likelihood of adjustments at the end of the fiscal year which might arise double taxation issues. Moreover, the usual recommendation towards the diminishing of TP risk is by proactively analyzing and monitoring the related party transactions.

In the context analyzed, restructuring explained as the "cross-border redeployment by a multinational enterprise of functions, assets and/or risks", should be evaluated in two ways: first the restructuring itself, the shifting of a function, asset and/or risk (Factors 1 and 2), changing contractual agreements (if they were in place) and therefore arising (if it where the case) certain compensations (Factor 3). Then of the newly transferred functions, assets and/or risk and how are they going to be remunerated from the restructuring onwards. This analysis is additionally supported by the pre-post restructuring assessment, for which the package of business assumptions (Factors 4 and 5) is key to determine the benefits and arising synergies (Trautmann, Bals & Hartmann, 2009), -such as economies of scale, process, learning, etc.,- and the options realistically available are important to justify first the need and then the value assigned to it. A

final note of caution is important when planning a business restructuring: given that the development of national dispositions varies greatly across nations, and therefore, individual country-by-country analysis should always be made to understand the particularities of each regime.

The complexity of the TP issues within the procurement function gets wider as the firm enhances its Global operations in additional countries or markets. The use of the implementation flowchart contributes to visibility at strategic and operational level, focusing attention on transfer prices and in transfer pricing as well as a necessary activity to gain benefits from tax compliance.

Execution Phase 4: Envisioning the Day-to-Day Operation

The so called envisioning of day-to-day operations asks management and teams to analyze what the future might look like. This approach requires the assessment of all possible futures, not only the one expected. As Diagram 6 shows, proposed tools include a series of matematical models or *scenario-based analysis*, which include Certain tools specially developed programming language (Business Process Execution Language) to systematize the BPMN process undertook in phase one of this framework (Persson, 2011).

An additional tool to foster cross functional team alignment includes the Sales and Operation Planning (S&OP) managerial practice supported by electronic means, which is a commonly used tool that merges the demand oriented side of the organization -Sales and Marketing- with its operating side –Production and SC- in order to facilitate demand planning on one side, master planning on the other and to synchronize the information flow between them (Watson, 2010). TP considerations can also be an interesting player in the S&OP process (Barret & Uskert, 2010). The strategic understanding of TP allows to bear in mind the necessity to analyze issues with an independent business rationality that permits a clearer pricing settling that diminishes the necessity of end of the year adjustments; and the focused, systematic documentation done throughout the S&OP allows to thoroughly justify the economic and commercial reasoning upon which the context was evaluated and the decision where made, lessening the arising of controversies with tax administrators.

5. CONCLUSIONS

The framework development thoroughly followed the three propositions it was based on, namely the tight interlinking between the operational level strategic conception and implementation; the consideration of contingency logic and the sequential and systematic chain of actions proposed for the attainment of the particular goals. As the case study results show that it served to systematically guide the implementation of structural changes in the procurement structure of an organization in order to increase the firm's supply chain *competitiveness* and be *compliant* with transfer pricing regulations. Results of the application of both the implementation framework and the flowchart, reveals the highly replicable nature of the framework for the implementation of any

strategy, not only the restructuring of functions, especially given the fact that theoretical and empirical evidence was recollected from a number of disciplines. Implementation flowchart application supports the idea of a multi-functional team participation in the changes implementation activities, leading to the organizational culture arena.

As continuous change is required in order to find fit to current gaps which are in constant evolution, thus, this research concludes that the intrinsic aim of any restructuring process is the *optimization of decision-making*. As derives from the research questions answers, to guide the implementation of changes in procurement structures, to attain competitiveness –in terms of SC management- and compliance -in terms of TP- the implementation framework contributes to better and timely decisions and actions that are properly remunerated in terms of the risks borne and the functions performed.

This optimization aim, which is to be considered an ongoing improvement, has several implications regarding the visualization: (1) of processes implying standardization, use of heuristics and mathematical modeling to achieve optimization; and (2) of people, implying the knowledge of individual and team dynamics, how are they are affected, what enables and limits their drive. Therefore, because organizations embed people, processes and technology, the issue of implementation apparently lies in the diverting structure of each: envisioning excellent processes or technologies will not derived the expected results if the people issue is not taken into account; if it "does not give meaning to the men in the trenches". When decisions are optimized through systematically and properly documented processes, a continuous improvement process can take place by building upon the enhanced competencies in the quest to achieve more complex goals.

Implications for Further Research

As either implementation framework and flowchart applications are subjects to the limitations of a single case study, research on a multi-company environment is to be made to assess to which extent this framework can guide a successful implementation of procurement reorganizations. Being a new research field in the boundary of business practices operations, complex topics should be explored such as the degree of standardization of the implementation framework at industry level, and assess the external validity of the workflow in firms of multiple product categories.

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