Degree Project
Level: Master’s degree in Business Administration with an International Focus

Intra-units cost charging practices across countries, challenges faced. Creation of a framework with relevant improvements.

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ABSTRACT:

Aim: The research aims at analyzing the intra-units cost charging across different countries, projects, and functions in order to establish cost charging transparency, fairness, and accountability. Furthermore, would suggest a framework seeking to ensure a smooth and consistent intra units cost charging across countries, projects and functions of a MNC.

Methodology: The study was guided by a qualitative strategy with an element of action research. A total of 7 interviews were conducted with 5 people; 2 of them were interviewed twice due to the nature of the study involving action research and gaining feedback from them.

Findings: The analysis revealed that there are variances in the determination of the rate used by various units of this MNC which causes a perception of unfairness and cumbersomeness in determining the costs to be charged between units. The desire to get a harmonized costs charging framework was noticed and recommendations for potential ways to arrive at that were laid out as well.

Conclusion: It is essential to deal with intra-unit’s costs charging on a continuous basis as the MNC tends towards a harmonization of this process. There is a need to be flexible and adaptable to imminent changes.

Keywords: Intra-units costs charging, consistent framework, cross-country cost charging variance, legal and regulatory considerations; project management, Organization change.
ACKNOWLEDGMENT

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# LIST OF ABBREVIATIONS

<table>
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<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>MNC</td>
<td>Multinational Company</td>
</tr>
<tr>
<td>SCM</td>
<td>Supply Chain Management</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
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I. INTRODUCTION

The era of companies operating in more than one country, without the restriction of being confined to their home countries has brought about numerous benefits in various jurisdictions. With globalization, Multinational companies have gained momentum. Trade at an international level rose exponentially through subsidiaries, branches, or permanent establishments mainly (Brockman, 2019).

Though these possibilities are available, from the early days there are also several challenges facing MNCs including non-standardized rules and regulations across countries, use of different currencies and fluctuations of forex rates, cultural differences to name but a few (Li et al., 2020). Cases of fraud or significant loopholes in regulations in various jurisdictions have led to various efforts at an international level such as OECD guidelines aiming at harmonizing or mitigating the risks such as profit shifting or transfer pricing. Related parties trading between each other is a common factor which in most cases is subject to a lot of scrutiny by regulatory bodies, which in most cases create additional administrative work for the MNCs (Mashiri et al., 2022).

These MNCs are not only required to prove that a service has been provided to the benefiting party and a commercial/economic value has been provided to the recipient but also, they need to prove that they are dealing at arm’s length which in most cases is proven through benchmarking. A common way is demonstrating that a third party would be willing to pay the same price for the service (De Simone & Sansing, 2019).

The above among other factors makes costs and accounting for costs in MNCs a critical function. Strategic planning, performance analysis and improvement, optimization of resource utilization and decision making are some of its main themes (Weygandt et al., 2020).

In a multinational, it is even more crucial to be keen on avoiding unnecessary risks of inefficiencies, non-compliance, and costly mistakes that an accurate analysis and understanding of the costs can curb; ultimately enabling effective planning for the future and making informed decision making (Ng, 2021).

In companies where resources are not solely dedicated to a specific country operations; where from project to projects resources are allocated based on the need of a particular skill-set regardless of their geographical locations or based on
specifications from clients’ requests for each project, it is essential to be able to assess how the resources and costs should be allocated consistently and yield the most benefit for the MNC within the legal boundaries (Espestøyl & Hernes-Larsen, 2021). Being able to do so, in the context of a world with economies that are totally different, with different currencies, different labor payments and applicable income tax laws among other things. This is the main motive for this research project that was done using a qualitative research strategy via semi-structured interviews with relevant people involved in the cost charging within units of the MNC that was used for this study.

The MNC has assessed its existing framework as one requiring fine-tuning. The insights gained through the above-mentioned interviews enabled the researcher to use them as the basis for input to the existing challenges and how best they can be mitigated. The ultimate goal being the creation of a framework ensuring a smooth intra-unit charging between countries.

The researcher was also actively involved in this process, interacting with relevant people to arrive at the suggested framework mentioned above, this qualified this project as action research on the other hand. More details are provided below in the methodology chapter. The section below describes the researcher’s motivation to conduct this research, its relevance and the research questions that guided the research to fulfil its aim.

### I.1 Relevance and research aim

In business operating in a global context, with market dynamics changing daily factors such as inflation, country specific economic, regulatory situations that can vary rapidly, it is of capital importance to ensure that the cost aspect is carefully evaluated.

Resource optimization is one of the targets a MNC wants to attain in all its projects. Making sure inefficiencies are identified, curbed by allocating resources to high-priority activities leads to better performance.

Company or group of companies’ growth is driven by the ability to rely on the assessment of profitability and viability of various projects or business activities carried out. When costs are not properly allocated, this exercise is difficult or quasi-
impossible. Furthermore, financial reporting is prone to present inaccurate data. Quite often, companies or units belonging to the same group might dispute some costs when there is no clear or standardized process of cost allocation among units of companies across the group. A sense of inequity or preferential treatment for some compared to the others can arise; hindering proper collaboration among the diverse teams working on projects around the globe as they do not share the same understanding on how costs are distributed among the units or teams.

The risk of non-compliance which in various jurisdictions comes with heavy negative consequences for the MNC such as penalties in monetary forms or lost benefits that are very often offered to investors in those jurisdictions.

There exists various literature on cost accounting or cost models (Soin et al., 2002; Duncan & Dunn, 2020; Frintrup et al., 2022), however, these are too general or industry specific. Without taking into account the aspect of cross border operations and that people no longer work where they are necessarily located physically. The latter can represent both an opportunity and challenge in terms of who charges the costs, who earns the revenue, who to pay taxes to.

The researcher’s interest to pursue a degree in Business administration with an international focus and exploring real life examples of MNC’s actual practices such as intra-units charging fits into the objectives the researcher set for herself prior to starting the programs. It is, therefore, the primary motive for this study.

In the Academic realm, the researcher believes that the study will contribute to the existing literature in financial management and accounting.

On an equally significant level, the creation of a framework will not only involve the people working for the MNC but also the researcher herself putting into practice the lessons learnt in the course of accounting and controls in Global enterprise. Discovering the process followed by a renowned MNC, the challenges they are facing and being part of developing a potential solution is another motive.

Though the results of the research will provide insights on these processes in a MNC in the energy and renewable resources sector, they may not be generalized as they represent the specific context of this organization which is not necessarily the same as every other MNC the data will present the views of the interviewees, and the internal documents that are unique to this MNC which might not necessarily be the same for all MNCs.
The research aims at analyzing the intra-units cost charging across different countries, projects, and functions in order to establish cost charging transparency, fairness, and accountability. Furthermore, would suggest a framework seeking to ensure a smooth and consistent intra units cost charging across countries, projects and functions of a MNC.

This aim encompasses firstly understanding the current state of intra-units charging practices and identifying key issues arising from these practices; secondly improvements that can ensure transparency, fairness, and accountability in cost charging across various units, countries, projects, and functions will be proposed.

In line with the above aim, this researcher intends to respond to the following questions:

1. How are the current intra-unit charging practices and processes across countries conducted and the key issues noted as a result of these practices and processes?
2. How can these features be improved to ensure cost charging transparency, fairness and accountability across different units, countries, projects and functions?
II. CONCEPTUAL FRAMEWORK

This part of the study covers the theories reviewed considered relevant to this study and the aim it is intended to fulfil of developing a framework ensuring a smooth and consistent intra units cost charging across countries, projects and functions of a MNC.

II.1 Stakeholder theory

Pererva et al., (2021) put an emphasis on the fact that the enterprise should rank its stakeholders and make sure its financial resources flow in a consistent manner considering each stakeholder.

One of the resources each organization aims at managing effectively is cost and its allocation. Cost allocation should align with the organization’s purpose and broader goals. An equitable and fair cost charging reflecting the value of goods or services provided should be used ensuring that no party to the transaction is unduly advantaged or disadvantaged.

Bilicka and Seidel (2020) stated that it is essential to comply with regulatory bodies prescriptions, which enhances compliance with applicable legal and regulatory requirements. Avoiding malpractices such as profit shifting and tax evasion.

Furthermore, scholars such as Freeman et al., (2021) suggest consideration for normativity, sustainability, people, and cooperation. The aspect of involving relevant parties in firm related activities and decision making is crucial. This process builds their trust in the system and fosters collaboration (Bond-Barnard et al., 2018).

It is beneficial in the consideration of long-term objectives and sustainability of the entire organization. Management ought to be keen on making cost charging decisions in the short term without compromising the relationship with the stakeholders or damaging the organization’s reputation.


II.2 Inconsistent and inaccurate cost accounting and its impact

Ensuring transparency in financial reporting and informed decision making in MNCs, it is vital to maintain accurate and consistent cost accounting systems. In the opposite case, MNCs might portray misrepresented profits resulting from underreporting or overreporting costs. (Alexander et al., 2020).

This leads to another issue of difficulties in performance comparison. According to Dominik et al., (2015), the allocation of resources is made difficult by the fact that performance comparisons between units or operations of the MNC is quasi-impossible.

Without the accuracy of the cost information, the true cost of production cannot be determined for instance. Services provided cannot be priced accurately as well. Furthermore, other important aspects of the business such as the assessment of the company liquidity, solvency and profitability are likely to show incorrect information.

II.3 Merits of an effective cost accounting system

In the perspective of Buys (2021), an accurate and consistent accounting system brings about numerous benefits. Better decision making in terms of pricing, resource allocation and investment. Financial reporting improvements with reliable financial reports enabling various stakeholders to make informed decisions about the company’s financial performance and prospects.

Better resource allocation to products, services or projects that generate the highest returns eventually leads to increased efficiency, reduction of waste, hence reducing costs and increasing profitability (Dominik et al., 2015).

The application of a consistent framework of cost account drives more compliance on the local level and with international accounting standards. The risk of costly penalties and legal action is mitigated on one hand. On the other hand, there are other cost-related issues such as cost overruns that are avoided, similarly for unexpected cost increases (Jasinsk et al., 2015).
II.4 New cost accounting framework

The implementation of a cost accounting framework requires not only financial resources in various cases but also the commitment of the people to work with it is vital. People involvement at all stages is one of the key elements for a successful implementation Dominik et al., (2015).

Jovanović et al (2019), stated that standardization and integration of the systems for various users to be able to use it is essential; otherwise, there are increasing risks of failure to regulatory compliance and the quality of the data available can be substandard. Cost accounting frameworks can be costly, it is imperative to devise a clear implementation plan, set realistic timelines and budgets, and give priority to activities based on their impact on the organization.

II.5 Economic and cultural differences, factors contributing to cost variations across different countries.

A wide range of factors can play a significant role in variations of cost charging across departments, entities, or group of companies. Economic and cultural differences are some of the main factors that can have significant impacts on how costs are charged and perceived in various countries. According to the world bank group (2020), purchasing power parity (PPP) for instance, is one of them. It is an indicator of the relative value of currencies based on the cost of common basket of goods and services. In places where it is low, the cost of goods and services tends to be low. Inflation goes hand in hand with PPP in various cases.

Ogunranti et al., (2021) stated that units operating in different countries may be faced with the currency exchange rate fluctuations impacting the effective cost charged between units, hence affecting financial performance. Mitigating risks like this can be achieved through hedging strategies (Lai, 2023).

In countries with a weak domestic currency, costs are usually high (Blakeley, 2019). Thompson (2022) argued that rigorous labor and tax laws, the requirements to pay high wages, provision of employment benefits such as long leave periods, holidays other monetary or in-kind benefits significantly influence the noticeable variations of costs than companies charge to one another across countries. Well-
educated and skilled workforce commonly referred to as industry experts can be a determinant factor as well.

In markets where competition is encouraged and in large size markets, costs tend to be lower than in monopolistic ones (Geng & Fan, 2022).

In relation to economic differences, things like PPP discussed in the paragraph above lead companies to adjusting their ways of charging costs within their units/departments to remain competitive. The country’s economy dictates price sensitivity. Geng and Fan (2022), mentioned that in some countries paying a premium can be normal yet it is different in some others.

The price elasticity of demand impacts the competitiveness of prices/costs in each market. The more developed the economy is, the higher the likeliness for labor costs and other prices to be more (Castillo-Murciego & Lopez-Lobarda, 2022). Espesøyl and Hernes-Larsen (2021) further said that transfer pricing is a key mechanism to be considered while determining the prices at which goods, services, or intellectual property are transferred between different units of the same multinational company. Its aim being the optimization of tax efficiency and overall profitability are influential in setting the TP guidelines.

As far as cultural differences are concerned, in the perspective of cost charging in organizations, an economy that is inclined to social and community values, prioritizing work-life balance is perceived to be more rewarding, yet the people work less hours or benefit more from incentives like: many days-off that they are compensated for (Schmillen, 2022).

In cultures where negotiation is common, units might incorporate flexibility in their pricing strategies to accommodate local negotiation practices. While in other cultures, when the price is fixed, it is considered like a norm or standard and cannot be changed without following a particular process that is quite often predefined (Chen et al., 2019; Lee & Park 2019).
II.6 Legal and regulatory frameworks and cost charging

A close look at the legal and regulatory frameworks is crucial (Brockman, 2020). They influence the structure of cost allocation, reporting, or transfer between units, departments, or companies. Their role is vital in determining the tax implications and the overall financial performance of the company. Ensuring fairness and transparency in intra-units charging mainly when cross-borders transactions are involved, which is commonly referred to as adherence to the arm’s length principle is a key aspect (Espestøyl & Hernes-Larsen, 2021).

The efforts exerted by the regulatory bodies aim at preventing profit shifting and tax evasion (Bilikić & Seidel, 2020).

In many tax jurisdictions, more details are laid out in tax laws and transfer pricing regulations. Local laws may prescribe specific methods for transfer pricing and cost allocation practices. Each jurisdiction is a sovereign and may impose its own regulations independently of any other jurisdiction (Espestøyl & Hernes-Larsen, 2021).

For compliance purposes, companies are usually required to submit varying documentations supporting the prices and terms used in cost charging between units. Quite often an actual delineation of each transaction or bulk of transactions is conducted and failure to comply can result in penalties. (Kundelis & Legenzova, 2019).

The scrutiny these types of transactions undergoes triggers proactive moves in businesses of entering bilateral tax treaties to avoid double or multiple taxation of the same transactions in various jurisdictions (Rawlings, 2019).

Moreover, some countries allow businesses to enter into advance pricing agreements with the tax administration ensuring that they do not run the risk of disputes or potential penalties as they ascertain ahead of time that their pricing methods for future transactions are acceptable (Eden & Byrnes, 2018).
III. RESEARCH DESIGN

Every research requires a roadmap shading light on how it is conducted from its beginning through the end. This section includes a brief description of the organization from which data was collected for this study, the research strategy and methods used by the author.

III.1 The organization

The research project was conducted at a MNC with an international presence in various parts of the world. More and more countries and companies are adhering to using green energy and other renewable resources which leads to soliciting the services of this MNC. The business was initially established and has been serving clients in the EU but now there is significant growth in the USA, Canada and Middle East. With this growth, more people are needed in other parts of the world and when they are allocated to the projects, there is a need to account for the costs accurately and in a consistent manner.

Revenue is reported project-wise. Projects invoice the customers and collect the sales proceeds. Expenses are reported function-wise and allocated to different projects, functions are responsible for the deliverables.

Team members in various functions do not perform work based only on where they are physically located, they do based on where the projects are based. For example, someone who lives in Canada can be working on a project in Saudi Arabia. Each leader on the various teams (functions) must allocate the people to respective projects according to where they are needed the most. There are various functions including: engineering, project management, SCM, quality, finance, health, safety and environment.

Cost allocation in case people worked on projects located in countries where they are not physically present has happened in the past and it required personal involvement of the head of finance department at HVDC, they were resolved on a case-by-case basis. Whenever the costs were not accepted by the respective projects, they hit Sweden's P&L where consolidation takes place. The company intend to create a framework ensuring a smooth charging between countries.
III.2 Research strategy

The research design includes among others the research strategy. The research strategy describes how the researcher intends to carry out the work (Saunders et al., 2019). The chosen strategy that was used in conducting this research is qualitative. Based on the aim of the study as described above, it was the research’s belief that it is the most suitable strategy. The rationale behind this choice being that the study aims at exploring the perceptions and personal experiences of team members on one hand. On the other hand, the research was based on a unique context of the organization. This strategy was coupled with action research, involving the researcher and various stakeholders in the organization. In addition to understanding the issues facing the organization, the researcher in collaboration with the organization’s practitioners in project controlling, tendering and finance brought together their perspective on the problem at hand in the specific context of this organization.

III.3 Research methods

Qualitative research strategy is designed in a manner that helps reveal the behavior and perception of a target audience with reference to a particular topic (Busetto et al, 2020). It is in this line of thought that the researcher opted for qualitative research method, which was suitable for the fulfilment of the aim of the research as its focus on understanding the current cost accounting and allocation on projects and creating a framework allowing a smooth cost charging policy. This strategy leads to an in-depth understanding of the views of the participants in the research on the subject matter at hand.
In addition to qualitative, action research has been used for this research project as the researcher’s action was involved in arriving at a suggested framework at the end of the research cycle. Action research in business management is a research method involving the researcher’s interaction with the research subjects, the researcher assessments, reflections and input contribute to the outcome of the research (Shani & Coghlan, 2021).

With the aim of improving processes and organization effectiveness, action research is suitable as it allows an active participation of various stakeholders during the research itself and finding practical solutions to real business world problems (Coghlan, 2019).

Kock, et al., (1997), stated that this approach is more useful when it is iterative. The researcher encourages learning from practical experiences, making adjustments as new and relevant information becomes available, it also involves continuous reflection on the outcomes to refine strategies. It combines academic research principles with real-world application, helping businesses enhance their operations, systems, and outcomes. Tangible improvements are expected from the implementation of the suggested framework.

Due to time limitation mainly and the nature of the problem itself, no iterations were conducted rather continuous reviews and improvements were recommended to the organization.

**III.4 Sampling strategy**

The criterion sampling technique was used for this research project. Criterion sampling is a purposeful sampling method used with an aim to build a comprehensive understanding, based on predetermined criteria, stating with clarity criteria included or excluded where the studies are analyzed as a whole (Suri, 2011, cited by Ames et al., 2019).

The sample is deemed to be reasonable enough to capture a range of perspectives on one hand. On the other hand, the size won’t be too large so that the process of
data collection does not become unmanageable. The researcher bore in mind that the limitation in time allocated to the research was a significant aspect to be considered as well. In a meeting with the CFO of the multinational company, a list of relevant respondents with their respective roles was provided to the researcher. In the first round, five interviews were conducted with the people involved with intra-unit charging in this MNC. These interviews enabled the research to understand the views of the interviewees. A second round of interviews involving two people was carried out to examine the secondary data sources including prior period projects costing and current rates for intra units charging.

III.5 Data Collection

Data collection was performed through semi-structured interviews which were recorded. An interview guide based on the research aim was developed. The purpose of an interview guide is to provide guidance, ensure consistency and that all relevant areas are covered (Hijmans and Kuyper, 2007, cited by Busetto et al, 2020). The data collected in this manner are considered to be primary data.

According to Saunders et al., (2012), primary data is defined as consisting of materials that one has gathered by the researcher themselves through systematic observation, information archives, the results of questionnaires and interviews which they have compiled. Data are primary if they have been gathered according to the researcher’s rationale and interpreted by them to make a point which is important to their own argument.

This researcher utilized other sources of information relevant to fulfil the research aim including documentation on previous projects carried out by the multinational company, and their internal documentation. These data are referred to as secondary data. They provided further insights to the researcher in understanding the research questions; and ultimately responding to them. Saunders et al., (2012) defined secondary data as data used for a project that were originally collected for some other purpose. The secondary sources of information that the researcher used in the
study included books, internet search, articles, and journals among others mainly on the literature review part.

**III.6 Data analysis**

Data from the interviews have been recorded via Microsoft teams and they were automatically transcribed. The researcher took notes on the side as well as sometimes the words in the transcription do not necessarily match the words on the recording due to the language programming of Microsoft office.

Brooks and King, 2017 recommend the use of template analysis methods for qualitative data analysis. To arrive at the template used in this research, found in the appendix below the interview guide, various steps were undertaken including the primary one of data familiarization. Thematic analysis and content analysis of documents were done, comparing and contrasting findings across the responses provided by the interviewees in relation to the aim of this research. Data collected were organized, sorted, and arranged into themes and codes relevant to providing useful answers on the research questions.

The secondary data sources provided by the MNC to the researcher were also examined. The results of the analysis were used to respond to the research questions, fulfilling the research aim of ultimately developing a framework that ensures smooth and consistent cost allocation across countries, projects, and functions.

The framework developed by the researcher is recommended to be assessed by management, put to use and evaluated continuously to ensure that it is functional and keeps fulfilling the purpose for which it was created.

**III.7 Validity and Reliability**

To ensure that valid data were collected, the researcher used a purposive sampling technique as described above to ensure that participants were relevant to the research aim. The researcher obtained the contact details of the respondents through their direct manager. Primary data were collected using semi-structured interviews. To ascertain that the reliable data were collected, the researcher used a consistent interview protocol and data analysis process (Sadik, 2019)
III.8 Ethical considerations

Ethical considerations are important in research involving human participants from whom either primary data are being collected or secondary data have been collected (Bell et al., 2019). In the case of this organization, as the research involved interactions with humans, gathering their viewpoints on a real-world problem, this aspect was considered.

In order to enable them to freely express themselves, their perspectives and personal experiences vis a vis the phenomenon under study, consistent open-ended questions were used (Mir, 2018).

Resnik (2018) mentioned the importance of the obtention of informed consent. It was obtained from the interviewees prior to any interview through an email. Once they agreed upon it and the time was set for individual interviews, the researcher obtained consent from them prior to recording them, they were treated with respect and their privacy was protected, the researcher avoided any harm and deception. The researcher sought confirmation from the interviewees where needed or when she was unsure of something. The anonymity of the organization and the interviewees was and will be observed. The researcher obtained prior consent from the MNC to use their data for academic purposes solely.
IV. FINDINGS

This chapter covers the presentation of the research results. Before diving in the detailed findings, a brief presentation of the interviews and their roles in the MNC will be shown in table one below.

IV.1 Presentation of interviewees and their roles at the MNC

Table 1. List of interview respondents

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Gender</th>
<th>Position</th>
<th>Interview Round</th>
<th>Date of interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>Male</td>
<td>Global Head-Business Planning Factory Controlling</td>
<td>Round 1</td>
<td>10th May</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>Female</td>
<td>Head of Site Controlling</td>
<td>Round 1</td>
<td>11th May</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>Female</td>
<td>Senior Business Controller</td>
<td>Round 1</td>
<td>12th May</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>Male</td>
<td>VP Tender &amp; Project Controlling, Europe</td>
<td>Round 1</td>
<td>17th May</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>Male</td>
<td>Project Business Controller</td>
<td>Round 1</td>
<td>25th May</td>
</tr>
<tr>
<td>Respondent 1</td>
<td>Male</td>
<td>Global Head-Business Planning Factory Controlling</td>
<td>Round 2</td>
<td>21st June</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>Male</td>
<td>Project Business Controller</td>
<td>Round 2</td>
<td>30th June</td>
</tr>
</tbody>
</table>

Source: Researcher’s work
IV.2 Roles and intra-units cost charging methods/pricing procedures.

In order to evaluate the system and practices in use at the MNC and be able to suggest any improvements or additional features to the one in existence, it was vital to understand the role played by people involved and how this system works at the present.

During the one-on-one interviews, the research discovered that all the 5 interviewees are to some extent, involved in the process of intra-units cost charging. Some of them more than the others.

Through the interviews, it was obvious that not one individual can handle the complexity of determining the costs charged between units. A concerted effort is needed involving accountants and non-accountants.

As the MNC engages on various projects, the determination of costs involves team members from the tendering department, engineering, SCM, and finance mainly for the determination of the scope of work, what resources to deploy based on who owns the scope and is expected to deliver on it; and ultimately the costs associated with each scope and logistics around billing for it.

“Our starting point which is really very important is to determine how we divide the scope, what we should deliver to the customer and what entity should do that delivery. For example, if we are working on a project where resources in Sweden, UK and Germany need to be involved, we divide our tender calculations in 3 columns with specific scope for each to come up with budgets for each.”

The determination of the costs attributed to various resources is done on a fully absorbed cost basis, it does not only account for the direct cost of employing someone rather it encompasses the pay, social security benefits, annual leave, medical costs. Overhead costs such as office spaces, administrative costs and other tools/equipment employed to get the work done such as computers or any other are also included. This leads to the ascertainment of the hourly rate.
One of the respondents who has been with the organization for over 30 years elaborated on this in the following terms:

“We set the hourly rates differently in different countries. So sometimes we don’t understand each other when we talk about the hourly rates, in Sweden, we calculate our rate for a group of individuals working in the same departments. In other countries they calculate dependent on what role you are holding.”

For reporting purposes, in Sweden, the MNC already has a system where everyone tracks their time. In other countries, it is necessary to rely on the data provided by line managers of the people working on various projects in different parts of the world.

“We are growing at a rapid rate, I am in charge of tracking the costs for teams globally, in Sweden, I have access to our tracking system SAP where employees track their time. For other countries, I cannot do it alone. I do it with the line managers. I, for example have 10-line managers that are working for construction and commissioning, and it is their responsibility to make sure that the people they send worldwide are productive.”
IV.3 Causes for cross-country cost charging variance, legal and regulatory considerations.

When the interviewees were asked about what caused variances vis a vis intra-units cost charging, some of their responses revealed similar answers, however some were divergent.

The main aspects were around the inherent differences in terms of economic, social, and cultural set up in different countries. Through the process of ascertaining the costs to be charged among units, some units or entity would voice out the fact that the costs to be paid to some individuals are too much. It is, therefore, crucial that the entire process is laid out and explanations are given in details in terms of what goes into the costs, how it is arrived at, the number of productive hours considered, and other relevant factors.

In one of the respondent words, arriving at the tariff or labour rates uncovers obvious variations.

“For similar types of resources, depending on their pay and the other costs added to them, the rates can vary quite a lot of country per country. For example, in countries like France or Sweden, predominantly socialists’ countries, social security costs are very high. Furthermore, the number of productive hours and days off would vary significantly in different locations. As a matter of fact, in the USA, annual leave is only 10 days, in Sweden on the contrary, the days off may be higher than in other countries, consequently, the cost of an individual per hour is higher.”

The entire set up is firstly based on budgets. Budgets in terms of scope, resources, and associated costs. The implementation might be surrounded by unexpected events. Since the implementation can run over long period of time, working in places where the MNC does not necessarily have significant footprint come with erroneous estimates. Estimations are made based on local benchmarks and sometimes the available data is not fully accurate.

“For projects we expect to run for 2 or 3 years, we always include an allowance for inflation, but if it is in a market where we have a small presence or not, we rely
on quotations submitted by sub-contractors or we simply sub-contract. In some instances, we’ve had some learning experiences when we based on local benchmarks and ended up with higher prices than these benchmarks. We realized we need to investigate, scrutinize, and increase the budgets from the beginning.” Said one respondent.

Another factor to consider that causes significant challenges and eventually differences is when a resource is planned for and budgeted for under a specific location and at the time of execution, the resource is not available. This becomes trickier when the resource needs to be sourced outside of the unit or country whose budget it belongs as in each country there exist rules, regulations, and laws different from any other.

One respondent argued: “The part of transferring resources is quite significant because the transfer of a resource would normally go along with the transfer of the corresponding costs.”

Another respondent went on and gave more details on this aspect and added that it even requires adjustments to the purchase orders between countries:

“An engineering manager might decide that on a specific task they will use a resource from Canada for example, if at a later time they decide to change to a resource located in UK instead, they also make sure they have the correct set up. So, in this global way of working, we need to make sure that we follow up on the contracts to be compliant with the tax rules and where we should show the profit and loss.

Movements between countries require careful attention due to varying tax regimes in those countries mainly. People are only willing to move to another country if offered more in terms of pay. The findings of this research were that even if this is the case, the company evaluates this aspect carefully to make sure individuals are paid correctly, their social benefits secured. The move can either be a long term one or employees are moved on secondment. When they go back to their country of origin, they revert to their previous pay.
In cases like this, the HR department referred to in this organization as global mobility gets involved, hand in hand with the tax department.

The data collected, further revealed that transacting internationally triggered transfer pricing aspect in line with the provision of international laws. The MNC, uses rates varying between 3 to 8%, with an average of 5%. Whatever costs are transferred between countries are marked up by a 5% to be complaint with the arm’s length principle.

Disputes occur due to this aspect as noted earlier due to varying hourly where some managers believe that wat is being charged to them is unreasonably high, topped up by the fact that some would not believe all the hours being charged have been worked. In other instances, when what is supposed to be done is not done on a timely manner or the quality of material used are not of the expected quality, cost run over is inevitable, ascertaining that budgets are available to cover such costs is vital.

It was interesting to hear one of the respondent perspective on this aspect:

“Sometimes we incur costs that we should not, which are disputed, and it is, I find predominantly it is a matter of communication, of being open, honest, and transparent. We all work for the same company; you keep reminding people.”

As noted above, on some projects, adjustments in terms of resources is a necessary aspect, the department in charge of intra-units cost charging needs to keep an eye on them to avoid any potential risks including non-compliance. One respondent stated:

“You know, we need to be vigilant as sometimes the engineering managers are only thinking of ways to optimize their resources, it is our role as finance department to ensure that it is done in line with the laws.”
There exist other risks associated with cross-border cost charging.

It was fascinating to note that one of the risks is the time that teams spend figuring out ways to handle intra-units’ costs charging, and this happens frequently according to the interviewees. In the end it is costly to the MNC. One of the respondent e expressed their thoughts in these terms:

“....................., in times of disputes that is internal time taken up discussing what is right or wrong, where we are not focuses on delivering the project to the customer. We are not focused on maximizing our profitability.

The other risk is connected to the disputed costs. It is crucial to make sure that the right costs appear in the right place because if this is not done right, the costs are disallowed if there is no corresponding income:

“The person deriving the benefit should have the cost as they are delivering the scope, I think in accounting terms they call it matching concept. At this point, we must go back to the simplest principles of accounting and tax. Who had the scope? Who delivered it? It is not about who had it rather it is who delivered it. But we tend to forget this each time.”
IV.4 Project cost management

Challenges and opportunities in standardizing cost charging practices

This study revealed that having a standardized way to arrive at rates for intra-unit cost charging would be ideal as it would enhance transparency and comparability. This would also take away the perception of unfairness and disparity vis a vis how the current hourly rates are determined. Furthermore, the MNC could become more efficient in arriving at costs to be charged for various scopes budgeted for and delivered.

“I would welcome a standardized approach to how we contract with each other, how we deal with the cost transfers with each other. I don't know working procedure or manual or whatever because I do feel particularly in our part of the MNC, we reinvent this for every project I've been here for a couple of year!”

In a similar line of thoughts, another interviewee echoed his opinion in these terms:

“If I am sitting in Sweden and if at any point of time, I need to borrow someone from China, I should know yeah that what would be the cost for me if I borrow some resources from China?

Yeah, so that that should be the good solution presently. So here we are making a process not a person dependent I should not call China undergo what is your rate is there and then I will do it I should not so this is the problem is that how we know the rate can we harmonize the rate for this purpose and at what rate this interunit charging will happen?

However, the interviewees noted that the MNC might face legal hurdles due to the difference in tax laws in various jurisdictions where they operate.

Difficulties may arise as projects are not the same with the same specifications and prices keep fluctuating in the markets very frequently. Gathering feedback on
these and learning from past tenders or projects was a common thing some interviewees thought would add value to the entire process.

**Methodologies in achieving consistent cost charging.**

Following the responses collected during this study, it is noticeable how critical it is for this MNC to get it right with the exercise of ascertaining the rate to use in a consistent manner and without multiple check-ins between various units or countries.

The aspect of growth which the MNC still expects to keep rising is one of the elements that drive the need for this.

Undoubtedly, figuring out an optimum alternative is crucial; however, it goes without saying that the process should be gradual as it is quite hard to change everything in one go.

The internal data evaluated during the second round of interviews revealed that there exist a significantly varying number of rates in various jurisdictions. The table below shows this information:

**Table 2. List of rates used per country.**

<table>
<thead>
<tr>
<th>Name of the country</th>
<th>Number of Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>More than 20</td>
</tr>
<tr>
<td>Germany</td>
<td>10</td>
</tr>
<tr>
<td>Korea</td>
<td>8</td>
</tr>
<tr>
<td>UK</td>
<td>2</td>
</tr>
<tr>
<td>US</td>
<td>7</td>
</tr>
<tr>
<td>Canada</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Internal documentation, review during round 2 of interviews.
It was noted that as much as the MNC is eagerly looking forward to a resolving this challenge of intra units’ costs. Making sure simple but useful principles are followed. One of the respondents expressed this in the following words:

“...............At what rate this interunit charging will happen? There may? If someone is working for the tender, what would be the rate? If someone is working for the project? Ohh the rate may be the same but where the cost will go?”

Nonetheless, the enthusiasm of this entire exercise should not only be an integral part of easing the work done by teams ascertaining the intra-units’ costs, but also it should aim at maximizing or at least improving profitability. Therefore, where the costs should go is where it belongs: a cost is recognized in proportion to the revenue it generates. Another crucial element is documentation. Arriving at a rates/rates solving the issues at hand would be essential, people involved must be able to provide objective and verifiable supporting documents as noted in the following statement of one of the respondents:

“And the process of just described happens on every project I've ever worked on, making sure that you align the income I will receive for the cost for the scope I have to deliver and have I got the costs for that scope because of some other country cannot have that cost.”
IV.5 Organizational culture and change management

Change management strategies for implementing a consistent cost charging framework.

In a dynamic world, change is inevitable. One of the pillars to remain successful or at least have a share in the market is to be proactive as rapid growth is noticed.

Establishing a culture of continuous evaluation and improvements is important. One can only be receptive to suggested improvements if they acknowledge the existence of room for improvement. Continuous communication, evaluation of the existing system

“Did we make any major or minor errors or did with have their wrong thinking at that time when they did the tender or anything else that we might even didn't think about, but I have not got the feedback so we might do the same mistake again.

So that is actually one thing I could say that the that we for sure have put on the table that we need to arrange for a process that we actually have regular feedback sessions, lessons learned, so to say that all that are managed in, in the unnatural process.
V. DISCUSSION AND CONCLUSION

V.1 Discussion

Based on the results of this research discussed in the previous chapter, it is established that in a MNC the function of intra-units’ costs charging presents quite a few implications, challenges, and complexities. The set up of the MNC itself is a big one not to mention the economic, social, and cultural ramifications that are inherit to the MNC nature.

The MNC operates in various markets whose economies differ, the social settings and cultural preferences were noted as factors with significant impact on these costs charging. As noted by (Li et al., 2020).

Resources are often allocated based on whose budget they belong to and who is delivering the scope of work they signed up for. However, sometimes they are allocated as a way of optimizing them which requires the involvement of the finance team and global mobility to ensure compliance with tax laws and reporting the right numbers for costs and revenue accordingly. Mashiri et al. (2022) mentioned the importance of compliance to mitigate the risk of profit shifting, eroding the taxable base and potentially incurring penalties or other sanctions.

Similarly, Bilicka and Seidel (2020) touched on the aspect of profit shifting that is avoided by establishing the right transfer pricing procedures. Making sure that related parties are dealing at arm’s length is an essential component.

Among the key potential issues to be approached with due care by the MNC is related to the allocation of costs proportionate to the corresponding revenues; preventing disallowed costs and ensuring accurate financial reporting as recommended by (Espestøyl & Hernes-Larsen, 2021).

The results of the study pointed out the potential benefits of a standardized approach to intra-unit cost charging, including the perception of fairness and ability to have comparables on one hand, and potential efficacy to be gained.
On a different note, discussions should also evoke the challenges posed by legal, tax, and market dynamics, and consider practical strategies for achieving a balanced and effective standardized approach.

Finally, after the identification of the practices currently in use at the MNC and various challenges encountered, the research uncovered that it is essential to embracing Change and establish proactive approaches. Change is deemed to occur regardless of the desire of anyone in the world and in the business environment in a particular way; being adaptable is crucial to the sustainability of any endeavors. Feedback collection and learning from past practices can be a resourceful aspect for continuous evaluation and improvements.

Ensuring the success of effective cost charging practices, collaboration and regular communication should be focused on to enhance the cohesiveness of the team sand making informed decisions vis a vis intra-units cost charging.

As established by the stakeholder theory, catering for every stakeholder is very important in fostering the relationships among them and getting everyone on board.

Following Brockman (2019) recommendations, leadership should play a significant role in driving change and should be keen on the pace at which they should take place. When implementing a consistent cost charging framework, some aspects might require incremental adjustments.
V.2 Conclusion

Conducting transactions between related entities and units into these entities fairly, transparently and in compliance with both domestic and international tax requirements in one of the pillars for the success of any MNC.

The aim of this study was understanding the current practices of intra-units charging and identifying key issues arising from these practices in a MNC. Furthermore, the identification of potential improvements to ensure transparency, fairness, and accountability in cost charging across various units, countries, projects, and functions was an equally important of this aim.

The following research questions guided the entire process of planning the strategy, selecting the interviewees, collection of the data:

1. How are the current intra-unit charging practices and processes across countries conducted and the key issues noted as a result of these practices and processes?
2. How can these features be improved to ensure cost charging transparency, fairness and accountability across different units, countries, projects, and functions?

The aim of this research was fulfilled as both guiding questions were answered through the interviews, the review of the internal documentations coupled with the content of the literature reviewed in the context of this research. It was interesting to explore all this and to gain insights into the topic.

An aspect of fairness and equity that can be displayed by avoiding profit shifting and consistency in terms of prices charged between units of an MNC at arm’s length.

Compliance and transparent reporting can be achieved through this. Businesses adhering to it do not engage in tax base erosion and profit shifting in jurisdictions with favorable tax rates.

Tax-efficiency practices aiming at making sure that the MNCs are not being double taxed, or multiple times taxed for instance should be navigated without
compromising on transparency and compliance with both local and international regulatory requirements.

Ascertaining that costs are set properly prevent the potential distortion of the financial reporting of various units; their profitability and financial position reflecting the true economic reality of these units. Inconsistency in this regard can harm the confidence investors have in management and how they run operations, the reputation of the organizations and can lead to possible scandals. Even if in many cases it is quite challenging or quasi-impossible to find relevant comparables or clear guidelines as each organization or set of organizations represent a unique set up, the practices selected should have a solid and justifiable foundation.
VI. FRAMEWORK FOR CONSISTENT INTRA-UNITS COSTS CHARGING

VI.1 Content of the framework
As noted through the interviews with various actors involved in intra-units’ costs charging, and the review of internal documentation such as current hourly rates used in various markets, past projects and their cycle, each market is unique. However, as much as the coordinating office in terms of costs charging (HVDC) would want to nail the details to individuals in each unit, the continuously changing market dynamics, the uniqueness of each project requirements, the company should aim at having a clear and concise process of charging intra-units’ costs, documented, regularly reviewed, and updated. It can never be a one-time exercise or a one size-fit all process.

On the grounds of the data collected though the above-mentioned interviews, the evaluation/analysis of internal documentation including the various rates represented in table, the author, therefore, recommends the organization to ease the work of their team, avoid long discussions, inconsistency in reporting due to this by considering the adoption of the following framework:

➢ Considering a harmonization of rates used in various markets: In as much as every market is unique in various respects, using a reasonably lower number of rates based on functions, level of skill set (expertise) instead of individual rates as it is the practice in some countries could be beneficial. In some jurisdictions, they use 5 rates for instance, which is more practicable than ten or more rates used in some markets. Harmonization does not necessarily refer to having the same rates, rather, keeping in mind the unique characteristics of each market and adopting a manageable number of rates. Alternatively, establishing one known rate per annum for each jurisdiction would be a potential solution. This would involve a significant amount of time at the beginning and would be based on historical data with a provision for potential inflation.

➢ Regular gathering of the feedback from various units, in a special way those presenting resistance if any to accepting costs that the finance department deem to be theirs. This will enable the MNC to collect real-time and invaluable information mitigating the risks of a perception of
unfairness in terms of where the costs should be reported and increasing a sense of same team spirit.

➢ Determination of these rates is crucial, internal communication with various stakeholders, involvement of team members from various units and jurisdictions at the get go of determining these rates would foster collaboration, taking into account local perspectives and arriving at well-informed decisions. Risks born; actual functions/work performed should reflect where they belong. Aiming at consistency to preserve the integrity and reputation of the MNC, hand in hand with the avoidance of any perception of favoritism or disparity among units/entities. Efficiency would be gained as well.

➢ Creating awareness through continuous education and training for various stakeholders on the importance of ascertaining that each cost is reported accurately and where it should be to comply and mitigate any risks associated with non-compliance. Moreover, considering the fact that even if each unit or entity in a given jurisdiction is an integral part of a bigger setting, the MNC and should align with the overall strategy of the MNC. Establish a clear and transparent mechanism to address any concerns of unfairness vis a vis intra-units cost charging.

➢ Continuous review and improvement mechanism defined based on the changing business conditions, changing regulations and team members feedback. The finance function should oversee and ensure that any decisions made in this regard are adhered to consistently and in accordance with the mission of the MNC.
VI.2 Limitation

As an element of action research, the above framework is missing the iterative element of implementation of the suggested framework to the MNC as the researcher had to leave Sweden prior to that happening. This was due to not only the fact that the results of the study were awaiting evaluation from the university but also a personal emergency on the part of the author requiring her presence in her home country.
REFERENCES


Espestøyl, M., & Hernes-Larsen, T. (2021). *Transfer pricing methods in multinational enterprises - identifying challenges to determine the arm’s length price*


Appendix 1: Interview guide

Thank you for your time and considering participation in this research through this interview. It will take approximately 30 minutes and there are prepared questions in this regard, but I might have follow-up questions. The interview’s aim is to develop a framework for the company to ensure a smooth and consistent cost allocation across countries, projects, and functions. It will be recorded but kept confidential. It is to be used for the purpose of academic research according to the university guideline and for the company for its operations. Once the research is done, the recordings will be destroyed. The responses you provide will be used anonymously for the analysis and interpretation of the final results of the research. I’d like to proceed with the interview questions now please advise if you agree to that. If at any point you feel that you are uncomfortable with the questions, please do let me know so that I rephrase, or we can move on to the next one.

Background information and cost charging methods

1. What is your role at the company?
2. Can you please describe the current process you use for intra-units cost charging?
3. When and how do you get involved in this process?
4. How do you determine the suitability of the methods you use for intra-units cost charging across the countries?

Cross-country cost variance, legal and regulatory considerations

5. In your opinion, what are the factors contributing to cost variations when charging between units, or countries?
6. Can you please discuss how economic and cultural differences have impacted the way costs are charged across different countries?
7. What challenges have you faced with the process of intra-units charging based on these differences?
8. What challenges do you anticipate encountering while implementing a new framework? In your opinion, how can these challenges be addressed?
9. How do you ensure compliance with various legal and regulatory systems across the countries where you operate?

10. Can you please discuss your approach in regard to transfer pricing? And potential risks, if any, in relation to cross-border cost charging?

**Project cost management in MNC**

11. From your own perspective, what challenges and opportunities do you envision should the cost charging between units become standardized across countries?

12. With the new framework, what features do you believe would be more useful to you? Your team and the entity at large in achieving consistent cost charging practices across different units/projects?

**Organizational culture and change management**

13. In your perspective, what strategies do you think would be effective for managing the transaction and ensuring acceptance of a new intra-unit cost charging framework across the organization?
Appendix 2: Template Analysis

Theme 1. Role and intra-units cost charging methods/pricing procedures.
   o Code 1: Current role in the organization
   o Code 2: Role played in intra-units’ costs charging.
   o Code 3: Applicability and suitability of different methods

Theme 2. Cross-country cost charging variance, legal and regulatory considerations
   o Code 4: Factors contributing to cost variations across different countries.
   o Code 5: Economic and cultural differences affecting cost charging.
   o Code 6: Legal and regulatory frameworks across countries
   o Code 7: International tax laws and transfer pricing regulations
   o Code 8: Potential risks associated with cross-border cost charging.

Theme 3. Project cost management
   o Code 9: Challenges and opportunities in standardizing cost charging practices
   o Code 10: Methodologies in achieving consistent cost charging.

Theme 4. Organizational culture and change management
   o Code 11: Change management strategies for implementing a consistent cost charging framework.