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TRADE DEPARTMENTS OF MULTINATIONAL COMPANIES

AN OPERATING MODEL

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PREFACE

This thesis marks the end of the Executive Masters in Customs and Supply Chain Compliance.

Firstly, I would like to thank my thesis supervisors. Professor Albert Veenstra guidance and input, not to mention his availability to answer all my questions, were not only key to help me finish this thesis but also very motivating when I was going through challenging times. I would also like to thank Dr Giovanni Manchia for his very valuable input and experience in organization practices.

I also take the opportunity to thank again the representatives of the 5 organizations who participated in testing the artifact.

Secondly, I would like to thank my family. My husband and my son for their unconditional support and their everyday patience and smile despite the difficulties that this thesis represented in terms of the time I could dedicate to them and, sometimes, my mood swings.

I would also like to thank my mum, my dad and my sister who despite the geographical distance and the time difference have always been there to make me believe that I was strong enough to do this thesis whilst addressing the challenges of my professional career and much more.

Finally, a special thank you to my dear friends Kathryn Bussey and Vivien Monti. Kathryn and Vivien's advice was precious to overcome some of the doubts and concerns triggered by this thesis. I hope our friendship will remain after the end of the masters' program and that the future will bring us all great professional opportunities.

ABSTRACT

Drivers such as globalization, deregulation and technology have changed and are still changing the environment Organizations and their Trade Departments need to deal with.

This means that Trade Departments are constantly challenged to deliver efficiently on their Organization's strategy but their ability to do so is hindered by a number of concerns that remain unaddressed. One of the concerns relates to the link between strategy and performance along with the necessary language and tools. This 'crystallizes' through an Operating Model.

The underlying assumption in this thesis is that a well-designed Operating Model is key for the efficient delivery of an Organization' strategy and that, without one, Trade Departments will continue to systematically face the same challenges.

The purpose of this thesis is to understand what Operating Model would allow Trade Departments of multinational companies to deliver efficiently on the company's strategy.

To examine the effects of the Operating Model I perform an analysis of the current practices and challenges faced by Trade Departments and their ability to deliver on the strategy.

The literature review performed during this thesis shows that Trade Departments do not have this Operating Model nor a Conceptual Model they can refer to and adjust according to their Organization's needs.

Further, the result of this research is that there is also a significant literature gap on Operating Models of departments with similar features. Notwithstanding these literature gaps, I develop a Conceptual Operating Model for managing the Trade function of companies operating globally. The development of this model is based on a review of organization theory and design and an extrapolation of other Operating Models of departments with similar features.

I conclude with a test of the artifact by 5 Trade Departments of organizations operating globally in different industry sectors and an analysis of the outcome.

The results of the test confirm that some departments Operating Models are still aligned to other departments such as logistics or legal whilst others have attempted to assess and define it to deliver more efficiently on strategy. This initiative is mostly driven by recent factors such as business model changes, regulatory changes or for example pressure due other to external drivers.

The results also confirm that the proposed COM covers the essential elements to deliver efficiently on strategy.

However, a number of barriers were put forward as potentially preventing the implementation of the right Operating Model. The participants have put a strong focus on the lack of support and awareness of the Organization's management.

Keywords : Trade Departments Operating Model, Conceptual Operating Model, strategy and operating model, Trade Departments strategy and efficiency

LIST OF ABBREVIATIONS

AEO	Authorized Economic Operator
AML	Anti-Money Laundering
CoE	Center of Excellence
COM	Conceptual Operating Model
FED	Federal Reserve Bank
FTA	Free Trade Agreements
GTMS	Global Trade Management System
OM	Operating Model
POM	Procurement Operating Model
SSC	Shared Services Center
TD (s)	Trade Department(s)
TC	Trade Committee
TOM	Target Operating Model
SIPRI	Stockholm International Peace Research Institute

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1 INTRODUCTION

1.1 PROBLEM STATEMENT

'The promise of trade liberalization and automated trade management was that it would make it much easier and less risky for Trade Departments (TD's) to deal with customs rules and regulations worldwide. On the contrary, the brave new world of trade liberalization has turned out to be a lot more complex and a lot riskier' (Field, 2206). In December 2006, in its article 'How Free is Free Trade?' Alan Field mentioned the complexity brought forward by trade liberalization and the challenges that the TD's would face to cope with it.

In 2010, Hausman et al (Hausman, 2010) propose a detailed process for Global trade management to address a number of complicating factors due to rapid pace of increasing volume of trade and the number of Regional Trade Agreements multinationals need to deal with.

In 2017, a Thomson Reuters survey (Thomson Reuters, 2017) argues that global trade regulations went from a sleepy niche to a major driver of mainstream news with one world power withdrawing from a historic trade pact and another ditching the European Union.

In 2020, TD's of companies operating globally face more than ever the difficult task of dealing with different regulatory environments at an unprecedented pace of change and a very demanding business environment. The pandemic caused by COVID-19 put another layer of pressure in these departments. Not only TD's had to cope with new and urgent flows, export restrictions and very specific regulatory environments applicable to medical equipment and PPE, they also needed to cope with new virtual working conditions for which they were not necessarily prepared.

Given that the complexity of the environment has been growing exponentially in the last decades and that recent events (such as Brexit, NAFTA/USMCA renegotiations, the Iran and Chinese sanctions, COVID-19) confirm the trend, what should TD's be doing about it? It is the role of TD's of multinational companies to manage international trade in alignment with their organization' strategy whilst dealing with the complexity of the regulatory environment and the fierce business competition. Whilst the strategic value of these departments has been the subject of some research, there is no substantial knowledge and no concepts underpinning the approach to getting a Trade function Operating Model right.

One of the reasons could be that very often TD's are part of a legacy of logistics or tax departments that developed their own space without the adequate structure, tools, and processes. But it could also be that the scope of those departments has grown very fast due to globalization and that organizations have neglected their value-added. Despite the reasons that could have triggered this situation, the reality is that TD's seem to lack the required Operating Model (OM) which would enable them to deliver more efficiently the strategy of the organization they belong to.

1.1.1 RESEARCH QUESTION

Based on the problem statement this thesis addresses the following research question :

> *Drawing upon the principles of organization theory and design what Operating Model would allow TD's of multinational companies to deliver efficiently on the company's strategy ?*

This research assignment implies an analysis of organization theory and design concepts to address the difficulties/challenges experienced by TD's of multinational organizations. As such, the first two sub-questions have been identified as follows :

1. What principles of organization theory and design can TD's take advantage of to build an OM ?
2. What difficulties/challenges are TD's experiencing and what are the key factors limiting their ability to deliver efficiently ?

After the theory, design concepts and difficulties have been identified and evaluated we focus on the specific design of the OM. More specifically, this part of the research focuses on the development of the artifact and its test. This is done firstly through an analysis of the key elements of OMs and their relationship to business model and strategy. Secondly, the research focuses on the extrapolation of elements of existing OMs of departments with similar features. The third sub-question is therefore the following :

3. What OM elements should be taken into account when designing the TD's OM ?

1.2 RESEARCH METHODOLOGY

The approach is the following :

1.2.1 LITERATURE REVIEW

A systematic literature review of academic papers on TD's and OMs was undertaken.

First, a keyword search was performed in two recognized academic electronic databases : Proquest and Google Scholar.

The following three strings were adopted :

1. ('trade departments' OR 'customs departments' OR 'Trade Departments function' OR 'customs departments function' OR 'global trade management' OR 'global customs management' OR 'Trade Compliance' OR 'Customs Compliance' OR 'Trade Strategy' OR 'Customs Strategy' OR 'strategic value of trade departments' OR 'strategic value of customs Departments' OR 'value added of trade Departments' OR 'value added of customs departments' OR 'Trade Departments performance parameters' OR 'customs departments performance parameters')
2. ('operating models' OR 'strategy and operating models' OR organizational design and operating models' OR 'organization theory and operating models' OR 'organization theory and strategy')
3. ('Trade Departments operating models' OR 'customs departments operating models' OR 'legal departments and operating models' OR 'tax departments and operating models' OR 'internal audit departments and operating models' OR 'purchasing departments and operating models' OR 'IT departments and Operating Models OR 'corporate departments and operating models')

The reason why the literature review was extended to other departments of multinationals is because the preliminary literature review showed little or null results on Operating Models for TD's. The research was therefore extended to departments with the following similar features: multinational environment, regulatory constraints, agility, facing constant change.

I considered both peer-reviewed and non-peer reviewed articles since the number of hits and relevance of articles was very low or null for peer-reviewed articles.

The research was first started with a time constraint for the last 2 years, then expanded to the last 4 years if the relevance of articles found was not substantial or null and finally the time constraint was removed if the results of the last 4 years were still too weak.

The last search was carried out in May 2020.

The number of hits for the three strings and their concepts was the following :

For the first string : *2,089,240*

1. 'trade departments' OR 'customs departments'
2. 'Trade Departments function' OR 'customs departments function'
3. 'global trade management' OR 'global customs management'
4. 'trade compliance' OR 'customs compliance'
5. 'trade strategy' OR 'customs strategy'
6. 'strategic value of trade departments' OR 'strategic value of customs departments'
7. 'value added of trade Departments' OR 'value added of customs departments'
8. 'Trade Departments performance parameters' OR 'customs departments performance parameters'

For the second string : *19,360,200*

1. 'operating models'
2. 'strategy and operating models'
3. 'organizational design and operating models'
4. 'organization theory and operating models'
5. 'organization theory and strategy'

For the third string : *5,245,593*

1. 'Trade Departments operating models'
2. 'customs departments operating models'
3. 'legal departments and operating models'
4. 'tax departments and operating models'
5. 'internal audit departments and operating models'
6. 'purchasing departments and operating models'
7. 'IT departments and operating models'
8. 'corporate departments and operating models'

There was a great degree of irrelevant articles and some overlap between the selected databases.

This reduced the number of papers to 1070.

Secondly, I read the title and abstracts of the articles and selected 200 papers based on a set of inclusion/exclusion criteria defined according to the goals and focus of this thesis.

In particular, the research results covering government trade and public departments administration have been excluded from this study since most of their features are not similar to the features of the organizations which are the object of this study. This enabled the elimination of a significant number of articles found during the search.

For the purposes of designing the operating model, transport arrangements, inventory and warehousing management have also been excluded from the scope of TD's and have been considered as part of the logistic function that is viewed as another stakeholder.

Thirdly, I carefully read the text of those articles and identified 51 specifically relevant for TD's operating models.

1.2.2 DEVELOPMENT OF OPERATING MODEL

The purpose of this thesis is to develop an Operating Model for TD's of multinational companies.

The reason why the research is performed within the context of multinational companies is multifold :

1. they represent multiple activity sectors and the biggest portion of international trade,
2. they embody the complexity of international trade and its consequences as they perform their activity in multiple countries and therefore need to deal with different regulatory environments, different cultures and constant change,
3. their organizational structure tends to be more complex than small structures. The complexity of multinationals can be illustrated for example with the number of departments representing different areas which interact with the Trade department, the different functional/reporting lines (Finance, Legal or Operations), the fact that resources can be partially or exclusively dedicated to the Trade function, the use or not of GTMS etc.

In order to develop this model, the following consecutive steps were adopted :

1. In chapter 2, I have addressed the organizational approach by focusing on organizational theories, design as well as the core organization concepts and strategy.
   When looking at organization theories for TD's of multinational companies, a large spectrum of aspects needs to be taken into account since TD's face challenges connected to constant regulatory and business change, but other aspects are very routine and mechanistic. The aim of this analysis is to produce a hybrid design through a combination of different theory principles. This hybrid design is translated into the OM.
2. After acquiring the theoretical background, in chapter 3, I identified the mission, the role and responsibilities of TD's as well as the current organization structures and their ways of working. This part of the research also highlights the difficulties TD's face, the key factors limiting their ability to deliver efficiently and why a change is needed. The aim of this exercise is to provide an extensive inventory of what we are specifically trying to address with the OM.
3. I then demonstrate in chapter 4 the value of an OM by starting with the definition, elements and purpose of OMs as well as their interaction with business models and strategy. This is followed by the review of OM's of departments with similar features. I extrapolate the features of different OM's and specifically identify the various elements which can be applied to the Trade function. These elements are then completed with missing elements and integrated into a conceptual Operating Model (COM). The alignment of the OM with the business model, corporate strategy and value proposition is also considered in this section of the thesis.
4. Finally, I carry out a test of the artifact through qualitative research with 5 multinational organizations.

1.2.3 TESTING THE ARTIFACT

Once the COM was finalized the relevance of the model was tested through qualitative research.

I conducted 5 interviews to get individual perspectives and experiences of multinational companies and the OM.

The relevance was tested first through an assessment of the organizations' current OMs and their efficiency to deliver on strategy.

Secondly, the relevance was tested through an assessment of the core elements of the COM and the flexibility of the COM to adapt to organizations with different features.

2 ORGANIZATIONAL APPROACH

2.1 ORGANIZATIONAL THEORY

Even though most organization theories try to address how organizations should work and how they affect and are affected by the environment in which they operate they deviate on a number of aspects such as their main focus and approach to management.

For example, classic organization theory has a very rigid and mechanistic approach, limits individual discretion and does not satisfy the need for belonging whereas modern organizational theories such as contingency theory are more flexible in the sense that the assumption is that there is no best way to organize a company or adopt the optimal course of action depending upon the internal or external situations.

Multinationals and TD's are largely shaped by classic and neo-classic theories (hierarchical structure, formal set of rules standard tasks, regimes document types). Classic theory is still highly applicable if one is looking for prescriptive principles, and could apply to certain aspects of the role of TD's which remain routine and very mechanistic. Such is the case of for example basic compliance aspects performed by TD's (eg filing of import and export declarations, certain auditing techniques and documentation files, etc). However, one needs to be careful with classic organization theory: it is very rigid and mechanistic, limits individual discretion and does not satisfy the need for belonging.

When looking at organization theories for TD's of multinational companies, it is important to also take into account other aspects such as the challenges connected to different environments, the constant regulatory and business changes, the new demands in terms of technology as well the required expertise. These aspects are more connected to a dynamic environment that could benefit from the application of an organization theory focused on change.

We can also consider a contingency theory approach which supports the design of a department due to the environment it's facing and the degree of uncertainty and change. The main idea of the contingency model is that organizations are an open system that needs careful management to satisfy and balance internal needs to adapt to environmental circumstances.

Universally no theory is wrong and there is no best way to organize a company. The optimal course of action is dependent upon the external and internal situation as well as the tasks to be performed. The main concern really is to achieve alignment and a good fit. Nowadays, as many organizations are strategically positioning themselves to take advantage of global opportunities, they are already designed in a way where they can take advantage of multiple theories.

This means that some principles of certain theories such as classic organizational design theory, contingency theory and change management theory can be relevant and benefit TD's.

2.2 ORGANIZATIONAL DESIGN

Design is the process by which managers select and manage aspects of the structure and culture and control activities and is important to be able to focus on strategy. Mary Jo Hatch in her book of Organization Theory (Hatch, 2013), states that from a modernist perspective a design is efficient if it minimizes the time, effort and resources needed to achieve organizational goals. A good organizational design optimizes performance by balancing elements of dimension of social structure (eg differentiation and integration) and careful analysis of it will reveal where efficiency and effectiveness are not achieved and changes can be implemented to address these problems.

According to the author (Hatch, 2013), contingency theory implies that there are many varied solutions, but formulaic efforts to determine what design works best in a given situation have proven unsatisfactory. These shortcomings can be explained by the complexity of the

phenomenon coupled with difficulties in defining and measuring all possible contingencies, prohibiting mathematical models from converging on clear solutions.

Nonetheless a combination of theory and practice has produced certain generic organizational designs that practitioners can use. These generic organizational designs that theorists and practitioners use as templates cover the theoretical concepts of social structure, technology, environment, conflict control and culture with a relation to performance measure. However, one should bear in mind that even if these tools provide a clear representation of the organizations' design they don't necessarily offer a full picture. A typical example is the design tool of organization charts that practitioners use as a representation of the company but which fail to provide information about coordination mechanisms, informal relationships or the distribution of power that flows outside the formal hierarchy.

Despite these shortcomings, if we focus on the core concepts of such organizational design principles we should be able to produce a hybrid design with solutions for the practitioners of international Trade.

2.3 CORE CONCEPTS AND STRATEGY

2.3.1 ORGANIZATIONAL STRUCTURE

Organization structure is the formal system of tasks and authority relationships that control how people coordinate their actions and use resources to achieve their goals (Johnson et al, 2014). Strategies imply a tasks organization through structures and systems. If the organization is not aligned with strategy, strategy will fail.

Every structure has its advantages and disadvantages. The choice of a type of structure depends on the nature of the strategical challenges as well as the context/circumstances which the organization faces.

Johnson et al (2014) state that it is possible to evaluate the relevance of each structure by looking at 4 key aspects :

i. Necessity of control: the fact that nowadays organizations are bigger and more complex requires an obvious level of control not only for the organization itself but also for investors, regulators and 'pressure groups' that are observing in detail the capacity of organizations to follow their strategy commitments,
ii. Change: The environment pace of change and uncertainty require that organizations remain flexible and capable of changing their structure,
iii. Knowledge: knowledge creation and sharing are essential for a competitive advantage. The structure must facilitate the concentration of expertise end encourage individuals to share their knowledge,
iv. Globalization : brings its own challenges in terms of coordination, communication and adaptation

The table below is used by Johnson et al to illustrate a comparison of the structures according to the different stakes :

STAKES	FUNCTIONAL	DIVISIONAL	MATRIX	TRANSNATIONAL	PROJECTS
CONTROL	XXX	XX	X	XX	XX
CHANGE	X	XX	XXX	XXX	XXX
KNOWLEDGE	XX	X	XXX	XXX	XX
GLOBALISATION	X	XX	XXX	XXX	XX

TABLE 1
Johnson et al, Comparison structures, different stakes and level of performance

The number of crosses indicates the level of performance of the structure in relation to the stakes:

- 3 crosses : high
- 2 crosses : average
- 1 cross : weak

The table above shows that there is no ideal structure and that each structure requires compromise. This means that if controls are key to the organization and that flexibility is less essential one can privilege the functional structure whereas if the organization focuses more on sharing knowledge at a global level a matrix or transnational structure is preferable. In practice, few organizations adapt a strict structure model and one can find more of 'hybrid' structures bearing in mind that these can also change depending on the context/circumstances.

By combining simultaneously different organizational principles, Jay Galbraith defends hybrid structures capable of combining centralized functions focusing on specific areas and specific decentralized functions focusing on others.

This aspect is particularly important in the Trade area. The centralized functions are needed in relation to an important controls' environment relating to the heavy regulatory aspect and at the same time local resources are needed to deal with more operational aspects. As noted in the Tomson Reuters (2017) survey whilst it is possible to centralize governance functions, there is a point at which centralization becomes impractical. 'Localized knowledge and relationships remain essential elements of a diligent approach to trade, and centralization should not blunt the value that local experts can bring to the process.'

2.3.2 ORGANIZATIONAL SYSTEMS

Along with structure, it is also key to consider 'systems' as an element of success of organizations. Formal and informal systems allow the control of the organizations activity through a system of means and results.

According to Johnson et al, big and complex organizations such as multinational companies will need a sophisticated system of direct (close monitoring and supervision) or indirect (definition of conditions to succeed) means (human and financial resources to deploy strategy) and results (profitability targets, market shares etc). Here just like with structures, many organizations use a mix of different systems which depend on the strategy stakes. The authors argue that just like for structures, the uncertainty, the knowledge and the globalization are the key stakes that determine the systems utilized by organizations.

The main aspects to consider along with culture are planification, performance and market mechanics.

Planification is key to specify and allocate resources and verify their utilization, performance objectives (commonly known as KPI) focus on the results of the organization and market mechanics are important to coordinate the activities inside the organization.

These considerations will be extrapolated later to TD's of multinational companies. The organization systems will probably make more sense if they utilize an indirect system capturing planification, culture and performance. These aspects should be considered in detail when designing the OM.

2.3.3 ORGANIZATIONAL CULTURE

According to Hatch (Hatch, 2013) an organization culture can be viewed according to different levels: as a culture in its own right, as a set of subcultures contained within the organization, or as subcultures operating within national cultures. However, many of these levels interact and should be considered simultaneously as the author puts it.

For instance, by focusing exclusively on the organization culture one may miss the tensions and contradictions suffered by members of the organization by reason of the subcultures. In contrast, if one only focuses on cultural aspects at the level of the environment or society and does not consider culture at the level of the organization it may miss what differentiates that organization from others.

A typical example of these tensions and contradictions in the trade environment can be the relationship of customs departments with external brokers or local authorities handling certain processes in certain regions of the globe. In this relationship, subcultures operating within national cultures can create tensions with an organization level culture of strict and rigorous compliance practice.

Theorists and practitioners underline the importance of the organization's culture in its strategy conception. This interest can be partially explained by the success of some Japanese companies presenting values and managerial principles which seemed to be more efficient than the American model. These managerial principles facilitated communication between employees, jobs rotation, systematic training by other employees and ensuring that intermediate management systematically considered employees initiatives.

Johnson et al, highlight 3 important processes when one tries to establish an organization's culture :

- Recruitment : Recruiters should look for candidates directly compatible with the organization's culture and capable of easily integrating the group,
- Socialization : Behaviors can be influenced by the social processes inside the company. Boarding programs and training sessions can provoke a feeling of belonging are typical examples of this process but one can also mention symbols such as common language or dress code,
- Reward : Remuneration, promotion or other symbolic awards can be encouraged by retribution. The willingness to obtain the same rewards as the most admired members of the organization can trigger similar behaviors.

Nonetheless, these processes are not a guarantee for success and one should bear in mind that as organizations are subject to many cultural processes which are not within the scope of formal managerial controls certain members of the organization can develop behaviors which are not in line with culture of the organization (inertia, lack of involvement,) and these can become roadblocks to the implementation of certain strategies and their OM.

In contrast, the influence of positive culture can have an effect without necessarily requiring managerial intervention. Such is the example of practice communities allowing experts to share knowledge to manage solutions through their own initiative (eg Mozilla).

2.3.4 CONFIGURATIONS AND DILEMMAS

Johnson et al describe configuration as a group of combined organizational concepts at the service of strategy (Johnson et al, 2014).

Consulting firm McKinsey developed a tool called the 7S model to help determine the alignment of certain organizational concepts, their adequacy to an organization and whether they will enable the organization to achieve its objectives. The 7 elements as illustrated below in Figure 4 are strategy, structure, systems, styles, staff, skills and shared values at the center of the model.

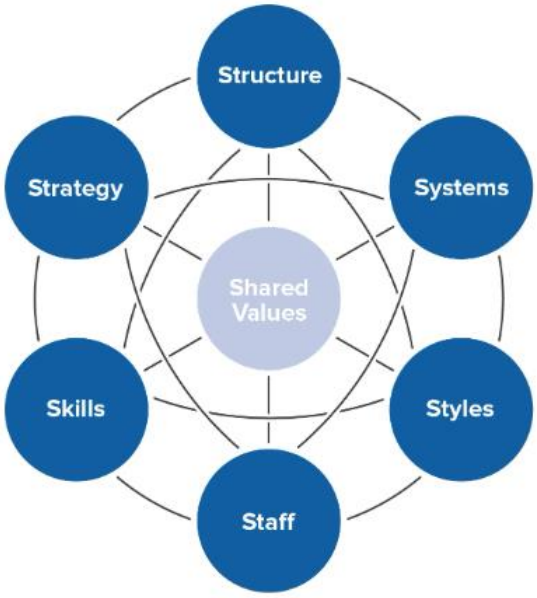

FIGURE 1
McKinsey's 7S Model

This model can be used to do a gap analysis or to determine the gap between what the company is currently doing and what it needs to do to successfully execute the strategy. According to Johnson et al, this model highlights at least 3 aspects of the organization. Firstly, organization is more than just structure. Secondly, all the concepts of organizational configuration need to complete each other harmoniously and thirdly, if one concept is modified, the others also need to evolve to maintain the adequate alignment.

However, the balance and compatibility of these concepts is hard to achieve in practice and often requires compromise. For example, hierarchical structures are necessary for organizations focusing on controls but may be in contradiction with networks encouraging exchange of knowledge and expertise.

However, these dilemmas can be solved through different designs such as the combination of multiple organization structures (eg Jay Galbraith Hybrid structures), the creation of special units dedicated to certain tasks (eg research and development) or constant reorganizations. Another solution is to create a virtual organization (partial or complete) through the outsourcing of activities to external experts.

2.4 CONCLUSION

This chapter provides an overview of the organizational theories and design TD's should consider when building their OM.

We can conclude that there is no single theory and design to use as a reference to build the OM. On the contrary, the complexity of the environment, the organizations and the tasks to be performed require a mix of different theories and design concepts if we want to build an OM which addresses the difficulties and challenges faced by organizations.

In order to achieve this, one should assess in detail the core concepts of structure, systems and culture of the organizations at stake. When looking at these core concepts, we can conclude that organizations often need to adapt hybrid solutions to respond to different situations which can result in unbalanced configurations and dilemmas. Achieving a balanced design to deliver efficiently on the strategy may sometimes require compromise and a constant assessment and development of the design applied.

3 TRADE DEPARTMENTS

3.1 MISSION

The new postulates and requisites of today's world relating to globalization, security and environmental protection have brought forward new regulatory requirements and controls which are much larger and often more urgent than the traditional customs requirements.

This means that TDs of multinational companies should adapt their mission statement to clearly reflect these changes.

In 2009, a report published by Ernst & Young about bringing strategic value to Trade Management (Ernst & Young, 2009) states that 'while executives agreed that clearly defining a TD's mission and objectives is an important step in principle, too often global TD's are organized without formal documentation of a stated mission or objectives.'

This statement is symptomatic of the general approach of organizations towards such departments and the unawareness of their value added. This also means that if there is no stated mission, organizations will not only lack a baseline to measure their performance, but they will not have the necessary means to allocate resources and effectively prioritize responsibilities.

However, even if the number of TDs without a written mission statement is high, Ernst & Young report identifies common high-level missions that are consistent in most TDs.

The report reveals that all TD's share a similar purpose: 'to comply with trade Laws, reduce duty payments and increase supply chain speed'. Interestingly, this report also notes that TD missions generally vary in scope, not purpose, depending on the resources that are aligned to the TD.

TD's mission can vary in terms of scope of territorial responsibility (domestic/regional/global), in terms of scope of involvement (consultative support to business units versus transaction level management) and scope of subject matter involvement (some departments will only deal with imports and exports, other value-added taxes, others export controls and other governmental agency compliance).

Hausman et al define Global Trade Management as the process required to support cross-border transactions between importers, exporters, their trading partners and governments (Hausman et al, 2010). In general, it encompasses planning, collaboration, compliance with regulations, transportation and inventory management as well as financial settlement. Even though the scope of TD's mission can vary depending on author's definitions and organization's profile we can assume that the main aspects of the mission of most TD's involve management of trade compliance, risks and opportunities in a heavily regulated environment.

However, research shows that most departments don't have a clear definition of their mission and strategy and this remains probably because of the lack of triggering events requiring a clear mission and strategy statement. Indeed, the requirement to have such clarity is often revealed when there are important changes in the corporate structure such as acquisitions, mergers, joint-ventures or leadership changes such as a CEO change, head of department change, or a need to significantly reduce costs.

Further, TD's strategy will also depend on a number of elements such as the business model, the organization's strategy and culture as well as the value proposition. TD's need to evaluate these elements to develop a reliable strategy. Clearly, most organizations do not take the time to do this even though the path to an excelling Trade function begins with a strategy plan.

3.2 ROLE, RESPONSIBILITIES AND POTENTIAL LIABILITY

Clarity as to the role and responsibilities of a traditionally run TD has often been lacking and often evolves depending on the organization the department belongs to and its strategy. In its white paper assessing the role of a Trade Champion, Reynold Martens (Martens, 2014) points to a trade compliance role that is a composite of responsibilities reflective of both the bigger picture or macro perspective and the more operational micro view. According to the author (Martens, 2014), the evolution of global trade compliance has led trade professionals to go beyond the traditional role of monitoring the process and paperwork relating to imports and exports of their organization to 'include the full commercial universe of enterprise activities'.

This means that traditional TD need to cover and manage risks and opportunities at two different levels which not only require a certain expertise but can also be linked to potential liabilities that one should consider when designing an OM. There is an important compliance aspect connect to TD's role.

The 2017 Deloitte's Survey on Global Trade Management (Deloitte, 2017), highlights the fact that Trade compliance functions across industry are often understaffed and underfunded potentially creating regulatory and non-compliance risks which may result in fines, penalties and other liabilities. This statement triggers the questions of, if that is indeed the case, who has the responsibility of the fines, the penalties and the liabilities and what fines, penalties and liabilities are at stake.

TDs, customs departments or persons in charge of customs matters are terms which are not defined in the customs legislation. The terms person in charge of the customs matters is used in Customs legislation when referring to specific criteria to be met when the business operator is applying for specific customs authorizations such as for example the Authorised Economic Operator (AEO) or certain simplified customs procedures[1].

However, these references are far from providing the appropriate clarity needed for organizations to get the right resources (human and technological) for their TD's. Further, the responsibilities can be connected to potential financial and/or criminal penalties in case of breach.

In general, the Organization (and/or indirect customs representative – eg customs broker) is responsible for customs duties and import taxes. Formally, in cases where customs duties incurred due to non-compliance with the customs obligations (eg smuggling, non-fulfilment of the obligations for customs duty suspension etc) the debtor may be any person who :

- Was required to fulfil the obligations concerned, or
- Was aware or should be reasonably aware that an obligation under the customs legislation was not fulfilled and who acted on behalf of the person who was obliged to fulfil the obligation, or who participated in the act which led to the non-fulfilment of the obligation
- Acquired or held the goods in question and was aware or should have reasonably have been aware at the time of acquiring or receiving the goods that an obligation under the customs legislation was not fulfilled

As we can see, the above liability seems not to be automatically linked with being appointed as 'person in charge of customs matters' but rather linked with the actual scope of obligations and

1 The UCC requires that the person in charge of customs matters has a proven practical experience (of a minimum of three years) in customs matters and the absence of any serious infringement or repeated infringements of customs legislation and taxation rules including no record of serious criminal offences relating to the economic activity of the applicant (over the last three years). The AEO guidelines (TAXUD/B2/047/2011-Rev.6) published by the EU Commission also shed some light on the responsibilities of the person in charge of customs matters and refers to the AEO applicant who is the person responsible as far as the financial and legal liability is concerned and in case of infringements of customs laws occurred in performing the duties.'
The person in charge of the customs matters can also be a contracted person. In this case the contract needs to be made available to the authorities and there are a number of criteria that also need to be fulfilled (eg relationship with contracted party for more than 3 years etc.).

responsibility of a particular employee along with his/her potential misconduct or acts of negligence and this is why a clear definition of the roles and responsibility is critical.

As for the criminal liability, each penal fiscal code has specific sanctions for breach of fiscal obligations including customs and import tax matters. There is no harmonization even within the EU. This makes it very hard to assess the scope and extent of the potential penal liability.

In general, the penal fiscal liability is connected with a specific action or negligence of a particular individual and is first borne by the person who commits a penalized action or acts negligently. However, we should bear in mind that in most jurisdictions, other forms of behavior such as aiding, organizing and ordering of a prohibited act can also be penalized. As such, the person who is not fulfilling the duty to supervise compliance with the rules in force in the given activity of the business operator, allows, even if unintentionally, to commit a prohibited act which may be subject to a fine for fiscal offence.

It is important to note that if export controls are also within the scope of responsibility of the TD the level of controls expected by the relevant authorities is much stronger as the penal consequences can be extremely serious. Export controls are often subject to multiple sets of regulations at the same time (for example US export control rules are extraterritorial), and typically there is no penalty amnesty. In addition, even if the organization performs a self-disclosure and it results in mitigation the mitigation penalties can still be very significant. Due to the lack of regulations explicitly excluding liability for each specific circumstance (eg country, facts, role of the person, specific circumstances at stake etc) and the lack of harmonization, most situations need to be addressed on a case by case basis. This results in a very challenging environment for TD's and their organizations.

In practice, to determine criminal liability, in most developed countries the authorities will also take into account organizational policies, instructions, manual regulating customs operations, provisions of employment contracts and even job descriptions which allow for a description of responsibilities and actions of the Company's employees. This documentation, along with the implementation of certain controls usually support the organizations facing such charges. However, due to the lack of awareness, a lot of organizations fail to implement such framework and end up paying the 'high price' with not only financial but also reputational consequences.

Further, the enforcement environment in emerging markets is extremely challenging as confirmed in EY's report (Ernst & Young, 2009) where many of the participants confirm that they have directly experienced aggressive enforcement and severe penalty assessments along with a growing level of sophistication of the customs authorities.

We can conclude that customs and Trade law can probably be considered one of the best harmonized laws in the international context. This is probably due to the fact that it was one of the sectors in which the EU Member States and other countries in the world have dedicated their efforts to translate market strategies and needs. However, when it comes to the definition of responsibilities of customs and trade experts and the potential liabilities connected to it, customs and trade rules remain a very complex realm which also need to be combined with other tax and legal provisions per country.

This lack of clarity has a number of undesirable consequences. First of all, it can result in financial penalties or criminal liability for the members of the organization. Secondly, it can damage an organization's reputation. But we can also add to the list inefficiencies and inadequacies within an organization. Given that the legislative framework is not clear as to the responsibilities, TD's often do not have the legitimacy to implement the appropriate measures.

The result can even be seen on a day to day basis, when for example other stakeholders belonging to the same organization interact with the wrong department or provide inappropriate information to external parties (eg asking for support from the wrong department, taking ownership of relationship with Regulatory Bodies, providing inaccurate information to the

customer, etc.). However, even if the lack of clarity remains within the legislative environment, an OM should provide for the right way of working to minimize the risks described above.

3.3 CURRENT ORGANIZATION STRUCTURES

To build an OM it is necessary to look into the TD's current organization structures to understand how they influence the performance.

3.3.1 RESOURCES NUMBER AND PROFILE

Although the awareness of the value of TD's is growing and savings in duties are taken into account by a number of organizations, the number of tax specialists employed by most companies is many times greater than that of customs specialists (Grainger, 2014).
It is a commonplace opinion that TD's are a cost center to which many organizations dedicate very limited resources.

The study mentioned above carried out by Dr Andrew Grainger (Grainger, 2014) draws the attention to the fact that the number of customs professionals in multinational companies can be very small (less than 20 at corporate level) even though customs management is a critical activity of the company. This study goes on to say that at country level, shippers tend to delegate customs matters to logistics staff and third party logistics providers. For some companies, operating 'multinationally' and with more than 100,000 employees 'customs is a very small cog indeed'.

Deloitte's Survey (Deloitte, 2017) showed a varied level of talent and resources dedicated to TD's with only one third of the participants indicating that they had teams composed of fully dedicated resources.

Further, the survey results showed no correlation between the volume or value of a company's imports and exports on the one hand, and the number of full-time-equivalent (FTE) talent resources involved with managing customs and global trade compliance (Figures 5 & 6).

Figure 5. Import value and number of FTEs

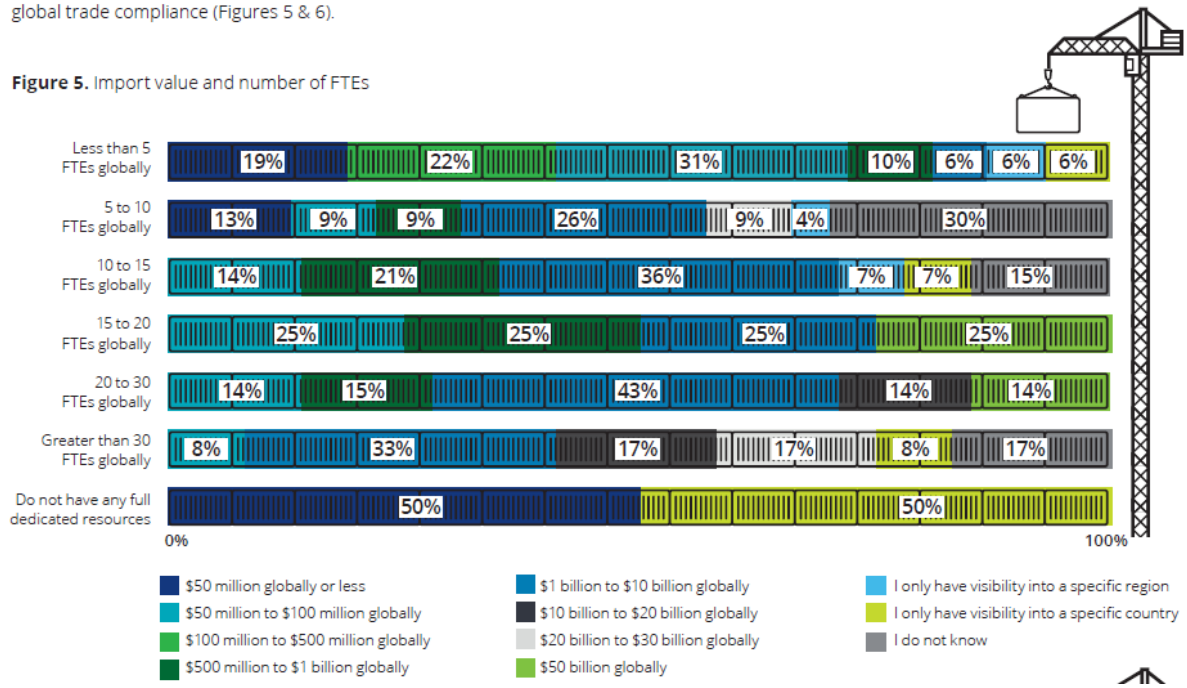

FIGURE 2
Deloitte's Survey report - Import value and number of FTE's

'Workshop participants suggested that staffing levels did not correlate to a single factor. Instead, a combination of factors appear to drive staffing. Among them are the complexity of product characteristics (e.g., levels of controlled exports, government agency requirements, and product type), audit history and experience, and executive management awareness of trade compliance.'

Further, Dr Grainger (Grainger, 2014, pg 25) notes in his study that most trade specialists/customs managers did not gain their knowledge through formal education and find that customs related education opportunities are rare outside of the customs administrations. The resources take part in occasional trainings provided by external consultants, specialists and conferences.

The same study also highlights that most informants of the study developed their knowledge and expertise through extended careers as customs officers or related public sector organization or as a customs consultant in a big four as a freight forwarder.

Given the complexity of the role, we should assess whether organizations should take a different approach in terms of resource profile and training requirements.

One of the reasons why the role is complex, aside from the territorial scope and multiple regulatory environments, is that the number of departments influencing directly or indirectly customs and trade transactions is extensive. In her article about upgrading compliance programs, Susanne Richard (2002) points out that given this complexity, resources in TD's must 'develop the skills to influence others even though they have no direct authority over those operations'. The author goes on to say that this means that to acquire this talent, it is key to identify the stakeholders, their priorities and translate the impact of the value added of the TD's actions to those stakeholders.

As the level of interaction of TD resources with other departments is high and they are constantly seeking the buy-in, we could draw the conclusion that at least some of the resource profiles should have the talent and ability to build and maintain relationships, overcome resistance and communicate their value-added to increase efficiency. The resources profile to face the immediate needs, the potential complexity and the ability to face future challenges are key aspects that TD's must consider at once. The current recruiting process with the traditional profiles mentioned in Dr Grainger (Grainger, 2014) study may not bring the necessary requirements to organizations expected to face the future imperatives of global trade. It is interesting at this stage to draw the parallel with what tax departments face.

In a KPMG study (KPMG, 2019) it is put forward a concept of 'Tax Reimagined' with a holistic view to transform the tax function. The aim of the application of this concept is to deploy people with the right skills, to develop the right processes and to harness technology tools to do this in a way that is consistent with the business' overall strategy. The study (KPMG, 2019) puts forward two propositions to face future conditions of which two they say 'should start raising alarm bells with tax professionals.'

> Proposition 1 : The in-house tax department, and tax advisors, will be disintermediated by tax authorities
>
> Proposition 2 : Unless tax professionals and the organizations they serve transform urgently, they risk falling down the value chain.

If we relate these propositions to customs and trade professionals since they share a number of similar features, we can conclude that potentially they will be in the same position to face future market conditions. We are well aware that technology will not solve all problems in organizations, but the requisites of technology should push customs and trade professionals to develop the right technology skills 'customs or trade technologists' to face the future of the environment. Just like tax professionals.

According to KPMG's study (KPMG, 2017) this is a 'call for tax professionals to take back control of the data and processes and to embark on a transformational journey using technology'. Their role will be to design processes (including through robotic process automation) and deploy technology tools (in many cases using artificial intelligence) to manage the data that, in turn, for example, manages the VAT compliance. In short, VAT compliance will be (nearly) entirely a technology proposition.

Customs authorities in most countries have made significant investments in technology and resources to deal with the requisites of data volume, speed of the supply chain and security needs. The strategy of a multinational should encompass the staffing needs to face such an environment and an Operating Model for TD's should emphasize the solutions to implement that strategy. Organizations should consider hiring and training the right profiles within TD's to face these changes and take advantage of opportunities linked to the new technology environment.

3.3.2 WHERE IS THE TRADE DEPARTMENT SITUATED IN THE ORGANIZATION?

According to Dr Grainger (Grainger, 2014) the diversity in functional affinity of the multinationals interviewed during his study is surprising.

TD's may work as separate departments (Global Trade Compliance), or be part of the logistics, legal or tax/finance function.

Deloitte's survey (Deloitte, 2017) confirms that in many organization customs and global trade transactions are managed by a stand-alone function or by resources embedded within other business functions. In addition, this survey confirms that although organizational reporting lines vary by industry and company size, global trade functions tend to report primarily to supply/chain logistics and legal/regulatory compliance.

In this survey (Deloitte, 2017) one of the findings is that the reporting lines of TD's vary by industry and company size but the most common function into which TD's report to was logistics/supply chain (35% in import and 39% in export) followed closely by legal and regulatory compliance (31% for import and 34% for export).

In its article focusing on upgrading of compliance programs, Suzanne Richer (Richer, 2018) recommends the shift of the TD's' reporting structure to departments known for their fiduciary responsibility such as finance or legal. She highlights the fact that 'locating compliance within departments subject to budget constraints (such as sales or logistics) limits the capabilities of the compliance team to a budget constraint that no longer values accuracy but is driven only by the compliance it can afford based off this year's budget'. The author (Richer, 2018) goes further and draws an interesting analogy with tax departments, their compliance targets and the fact that it would be unthinkable to place the reporting lines of those departments under sales or logistics. Building an import or export compliance team needs to be aligned to the same principles that govern the creation of the tax department: 'accuracy, timeliness, and adherence to regulations.'

Even though we could agree with this analogy when it comes to the compliance competence of TD's, there are also factors that could lead to a different conclusion when it comes the TD's operational competence and the need for flexibility.

The recommendation of the reporting line to departments with fiduciary duties was confirmed in Deloitte's survey 2017 (Deloitte,2017) , where the participants pointed out the relevance of this reporting *line* in industries with a high level of compliance risk such as aerospace and defense. However, when the same participants were asked which functions they ought to report into, 57% of the respondents responsible for import compliance and 52% of the respondents responsible for export compliance would prefer to report into the logistics/supply chain function. This represents a 22%-15% difference of their actual placement.

3.4 INTERACTION WITH OTHER PARTIES

3.4.1 INTERACTION WITH EXTERNAL PARTIES AND DIFFICULTIES

The interaction of the TD with customers, suppliers and other business partners such as brokers is key for the accomplishment of the TD mission in terms of compliance and supply chain optimization.

The interaction for supply chain agility when importing and exporting is an obvious one as it requires key information for the preparation of the required documentation for import and export purposes. Figure 3 summarizes the needs for the various interactions and the wide range of tasks these interactions can encompass.

- *Interaction with customers and suppliers*

In this section we will focus on two of the most important aspects of the interaction with customers and production suppliers :

- Qualification of goods for Free Trade Agreements
- Export Controls compliance

FTA's

A 2018 report on the use of the EU's Free Trade Agreements prepared in collaboration between the National Board of Trade Sweden and the United Nations Conference on Trade and Development (UNCTAD) challenges some 'enduring myths' on the utilization in free trade agreements such as the one that free trade agreements, in general, are not used to a high degree. Empirical data in this report shows that the EU's free trade agreements, in general, are used to a high degree. However, it also shows that border-related aspects of implementation of the free trade agreements in some cases might be more cumbersome than the provisions of the free trade agreements themselves and that there is still a lot of room to increase the utilization of the EU's free trade agreements.

The benefit of Free Trade Agreements can be applied in multiple scenarii : when an organization imports goods into a country, when it transfers goods to other entities of the same organization and when its customers and business partners wish to benefit from these advantages [2].

Despite their advantages (duty reductions, strategic market opportunities etc), FTA's bring significant challenges to businesses specially when the supply chain is complex, and the volumes are high. The business environment constant changes and market demands make the task even more complex.

Some of the reasons are that to take full advantage of FTA's businesses need to master the information of these regulations, adhere to the rules of origin whilst keeping up with regulatory changes.

But another reason is the interdependency of the tasks and the fact that organizations also need to rely on their supply chain partners willingness to deliver the information and documentation needed to accomplish this process.

[2] The preferential tariffs are traditionally the main benefits of free trade agreements for the integrating parties. A preferential tariff is a reduced or re-moved tariff rate in a free trade agreement, which is granted by the importing party for a product originating in the exporting party. These might be seen in relation to the higher general external tariffs, mainly the 'most favored nation' tariffs applied by members of the World Trade Organization (WTO). The difference between the applied 'most favored nation' tariff rate and the preferential tariff rate is normally referred to as the 'preference margin'. In most cases, preferential tariffs equal duties of zero percent (or possibly slightly higher levels on 'sensitive' products) and the preference margins differ between countries and products, depending on the 'most favored nation' tariffs that are applied on the imported products from third countries. In general, the preference margins and the values of preference eligible trade are the main incentives or 'drivers' for preference utilization

Manufacturing entities need to manage their customer expectations and deliver certificates of origin of the goods so that the latter take full benefit of the FTA's.

The difficulties in managing these expectations become apparent when organizations do not have the inhouse knowledge, resources, processes and technology to manage these complex rules and deliver on customer expectations. Most importantly, the interdependency of this part of the process with other actors and processes of the supply chain such as materials/raw components suppliers often leads the process to fail if there are no contractual arrangements in place and these actors do not cooperate. The result can be that not only the organization fails to deliver on the customer's expectations but also fails to take full benefit of these rules.

The solicitation of suppliers usually takes place every year to collect the confirmation of the preferential status of the goods being purchased as well as the supporting document of origin. Organizations can find difficulties to obtain the required information from the suppliers but in the absence of contractual obligations to manage this aspect of the relationship those difficulties can increase as there was never a commitment to provide it. Besides, it can also happen that obligations connected to the supply of documentation and information are buried in the general terms and conditions of the customers or other contractual documents and that the departments that need to participate are not even aware of this. Indeed, the suppliers themselves need to have implemented the adequate measures to cope with the solicitations from multiple customers, for different FTA's and distinct products.

These supplier's responses are the foundation for BOM qualification when the customer tries to qualify for preferential origin to minimize duty payments and can become critical to maintain a certain level of margin.

Export Controls

Export Controls[3] are one of the most challenging areas TD's need to deal with as the potential liability connected to non-compliance can be very damaging both to the organization and to the people in charge of TD's.

In this respect, organizations face challenges linked to the level of detail that they are expected to control and the lack of coordinating processes between their suppliers and customers as well as some intermediaries participating in the supply chain.

Bauer and Bromley on a SIPRI report (SIPRI, 2019) regarding detecting, investigating and prosecuting export control violations mention that the increasing complexity of both trading patterns has led to a rise in the use of brokers, front companies and transit and trans-shipment points. This has multiplied the number and type of actors and activities involved in the trade in arms and dual-use items, and made it easier to conceal—and harder to identify—the real end-user and end-use in a specific transfer. Rapid technological advances, particularly in the field of electronic communications, have increased both the volume and significance of transfers of technology and software that enable the production, development and use of controlled items. Such transfers are now far harder to detect, while advances in areas such as additive manufacturing (also known as 3D printing) mean that the information transmitted can be used more readily in the production of controlled items. States' national legislation has sought to keep pace by extending controls to new activities and items, but effective enforcement requires the adoption of new tools and techniques. The authors of this SIPRI report(SIPRI, 2019) highlight the main obstacles that States face with regard to the detection, investigation and prosecution of export control violations and examines what steps have been taken—and could be taken—at the national and multilateral levels to overcome them.

[3] The systems that states maintain for controlling the trade in arms and dual-use items (goods, materials and technologies that may be used for both civilian and military purposes) are known as export controls.

We can transpose these difficulties to the ones TD's face with regard to detection and investigation. The burden put on organizations for export controls compliance is very difficult to manage. The ability to fulfill the key requirements is very often hindered by the complexity of the rules [4], the lack of clarity of what is permissible and not permissible and the complexity of the supply chain.

Some of the requirements relate to the obligation of informing the recipient of all types of controlled items (material, software, technology, services) of the classification of the products in at least one of the shipping documents (invoices, packaging, etc.) as well as on the products themselves or the applicable documentation. On top of being a regulatory requirement, implementing this documentary approach minimizes the chances of the parties being prosecuted for lack of information if the recipient breaches the regulations. However, most organizations do not have the required OM to implement such approach.

Further, the difficulties get bigger when organizations are forced to enter into contractual arrangements with their customers and turn to their suppliers for similar arrangements in order to minimize their exposure.

It is regular practice in industry for customers to ask for the contractual commitment from their suppliers regarding export control information of the goods they supply such as

I. the specific E.U. and/or US export classification i.e. the Export Control Classification Number ("ECCN") and/or any similar forms of classification identification in force at the time of delivery the relevant transactions (e.g. classification according to Council Regulation (EC) 428/2009 (Dual Use Regulation) as amended, supplemented or updated but also any regulation in force re. a specific country such as e.g. Iran, Syria, North Korea embargo etc.,
II. country of manufacture,
III. percentage of U.S. content integrated to each of the Goods,
IV. confirmation as to whether or not the Goods are direct products of U.S. technology and software.

However, the contractual arrangements intended to protect the customer have their limits. It can support the customer towards the relevant authorities to a certain extent but it cannot exclude the responsibility of the organization to establish its own system of export controls. Also, one delivery can be subject to multiple regulations, multiplying the number of requirements which are potentially applicable to it.

A binding confirmation of the requirements can be only obtained from competent national authorities (e.g. BAFA, GISS, HMRC) very often necessitating technical expertise for the application process, license requirements and delays which are not compatible with the agility constraints of the supply chain.

This results in significant confusion and sometimes conflict between the various parties of the supply chain in terms of responsibilities and potential liability.

Further, the obligations in terms of data to be captured and checked (countries, parties, products: goods, services, technology) are often so significant that if the checks are performed manually they can fail to identify potential issues.

4 For example, the provisions on screening in the General Data Protection Regulation (Article 10) conflict with U.S. regulatory requirements on export controls and sanction programs. U.S. regulations oblige companies to screen employees, visitors and partners for potential criminal convictions, based on personal criminal records which are released in the public domain by U.S. authorities. However, there is no consensus among EU Member States on how to approach this.

Finally, the scope of export controls has become so large that it has expanded to industries that were not initially within the scope of the regulations and which didn't invest in the appropriate tools and resources to monitor and comply with their obligations.

- *Interaction with outsourced activity suppliers (Processing customs declarations)*

It happens regularly that TD's outsource some of their tasks, the most common one being core clearance processes with brokers and freight forwarders. The reasons can be the wide scope of responsibilities, the skill set required and the fact that departments are often understaffed. It may also be that outsourcing funds are available when headcount isn't. EY's study on strategic value to Trade Management notes that in challenging economic circumstances outsourcing funds may be available to take on specific projects or functions whereas headcount addition won't be.

In approaches to broker management, Deloitte's survey (Deloitte, 2017) shows that 45% of brokers are managed at the country level, 26% are managed regionally and 29% centrally. The study also shows that companies with a revenue of less than $20 billion had less than 10 brokers and over $20 billion had anywhere from 11 to 50 brokers.

Dealing with a multitude of brokers in different regions or countries adds another layer of complexity to the way TD's work and deal with responsibility. It certainly increases the risk by making it harder to conduct audits and meet compliance requirements.

It also makes it harder for the definition of responsibility and communication of the implications to the rest of the organization: The 'My broker takes care of that' attitude is a systematic symptom of most logistics and operations departments.

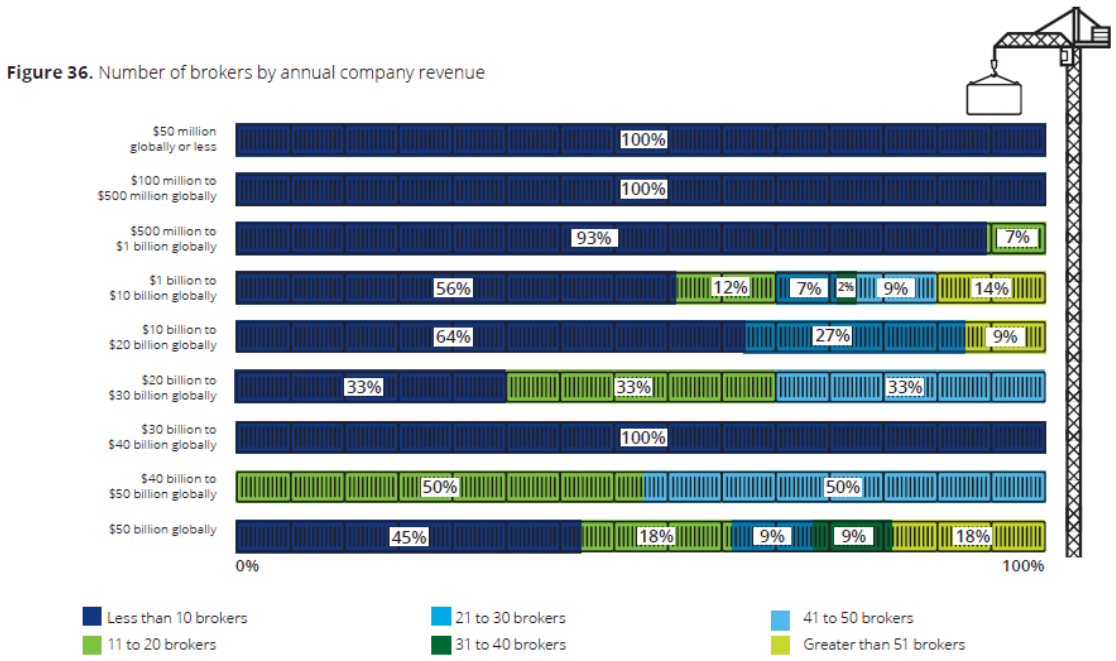

FIGURE 3
Deloitte's Survey report - Number of brokers by company's revenue

- *Interaction with regulatory authorities*

The interaction between TD's and regulatory authorities is complex. As Bryson, Crosby and Stone (2006) stated, 'cross-sector collaborations are complex entities that defy easy generalization is an understatement'.

There are a number of improvements observed in the relationship between the authorities and businesses during the last decade or so such as for example more open communication, access to information, and attempts to simplify certain regulations and make them more accessible to the general public. On the other hand, the expectations for businesses to meet regulatory requirements have also increased and bring another layer of complexity specially for multinationals trading in multiple jurisdictions.

As governments are looking to increase revenues and lower costs whilst dealing with increasing workloads and reduced resources, a number of regulatory authorities and customs administrations are moving away from the traditional approaches.

We can observe significant changes in terms data processing and audit techniques. In the last years, we have seen a general trend (just like with tax authorities) for customs to modernize their tools, causing technology disruption and pushing organizations to streamline data and technology to meet these demands.

The global focus on transparency through for, for example, the implementation of real-time electronic government platforms aligned to strict enforceable regulations has put a tremendous pressure on TD's to meet the requirements.

In addition, we can also observe that Customs have sought external resources from the private sector to meet its policy objectives. In doing so, 'Partnerships' such as Customs-Trade Partnership Against Terrorism (C-TPAT), and AEO have shifted the burden of some controls (and implicitly some costs) from the customs authorities to the in-house TD's.

The expected outcomes in this kind of partnership as listed by Bryson et al in their collaborative governance framework are better compliance, improved trade facilitation and security and ultimately, economic development and social protection.

However, even though, as stated by Shujie Zhang and Rob Preece (Zhang and Preece, 2011) in their article regarding designing customs-business partnerships 'there is likely to be a common objective for business and Customs in a partnership context, that is, to reduce the level of intervention in international trade transactions, albeit for different reason', from a business perspective, these partnerships do not seem to be delivering the expected tangible benefits and are often perceived as a 'forced marriage' to facilitate legitimate trade rather than a partnership (BIMCO 2010).

In their article, the authors (Zhang and Preece, 2011) observe that the relationship between Customs and business is undergoing a paradigm shift from a 'traditional bureaucratic model' to a 'new governance model' and that it may be time to examine the concept of Customs-business partnership and whether both Customs and businesses are benefiting from this new approach.

On risk allocation the authors go further and state that 'Just like in any partnership we look for mutually achievable objectives and benefits which can be shared…These risks need to be understood and ways of managing them need to be assigned to each party. The relationship can become one-sided or imbalanced if only one party carries all the risk.'

Despite these observations, we can should also make an optimistic appraisal of the current situation in the sense that meeting the developments of regulatory requirements can also serve as an opportunity to modernize and improve some aspects of the OM.

Such is the case when Multinationals take the opportunity of regulatory requirements to invest in technology changes to meet on-line data requirements, better define ownership and responsibilities, identify blind spots, gaps, opportunities whilst reviewing the organization processes during the preparation of a 'partnership' application such as AEO.

3.4.2 INTERACTION WITH INTERNAL PARTIES AND DIFFICULTIES

Not only most companies work in silos and each department tends to focus on their priorities but the information needed to perform certain fundamental tasks is simply missing, wrong or not accessible.

In their article assessing the evolution of the Finance Operating Model, Letart and Gittleson (Letart and Gittleson, 2009) highlight that there remains a disconnect between the type of information needed to meet the regulatory requirements and the type of information needed for business purposes.

The authors demonstrate that most business models rely on cross-business synergies, but functionally they are still organized by line of business or geographical region and that the information needed to perform tasks is easily trapped within business units, specific departments and geographical silos.

The need for more detailed, accurate and timely information is outpacing the finance back-office and their ability to generate the information – this gap between information needs and information capacity represents a persistent challenge.

We can draw the parallel with some aspects of the customs function, where the lack of or the non-reliability of information for compliance purposes reflecting the business reality is disconnected from the regulatory expectations. Conversely, the regulatory expectations in terms of speed and detail are also disconnected from the business reality TD's need to manage (Hesketh, 2010).

Given the interactions needed to accomplish their tasks, very often TD's have to deal with missing or wrong data resulting in inefficiencies and risks for the organization that could have been avoided.

It is common practice in multinational organizations to develop controls, procedures, risk programs and trainings around specific topics such imports, exports, incoterms without involving other departments. It can also happen that TD's try to involve other departments, but they do not get the adherence needed because other departments do not see the relevance of the topics to them, the locus of control is in different places or they have interpersonal conflict.

Interpersonal conflict between managers of different business units and TD's is a regular occurrence which can hinder the organizations' effectiveness and strategy (dissimilar goals, biases, expectations).

Peterson and Griffin (2019), address the issue of organizational conflict in organizations between their employees and in-house counsel as inevitable and caused by an array of reasons such as education, training and behavior. According to the authors, managers often view legal regulation as restrictions on permissible activities, impairments of organizational growth and an inevitable cost to doing business. We can draw the parallel with TD's, often confronted with a myriad of regulations to comply with and the pressure of the supply chain agility, the business requirements of cost minimization and the priority to serve the customer (quality and time).

This study shows that the connections between organizational conflict and organizational learning present an opportunity to adopt proactive law principles with organizational processes and practices.

Therefore, the development of a corporate environment supportive of proactive training initiatives seems to be a valid recommendation provided the program is effective (need to assess how participants approach the training etc).

'Effective training programs nurture employee readiness in ways that serve the mission, goals and bottom lines for organizations'.

As suggested by Suzanne Richard (Richard, 2010) 'Improving technical expertise requires that companies must place a priority on training based around supply chain drivers with an eye on customs compliance issues-since these factors permeate every step of a global supply chain. The end result is increased efficiency of the trade compliance operation and improved awareness of what going global really means.'

The adoption of authorizations such as CT-Path and AEO can offer not only the opportunity to implement different procedures and controls but also training programs as these authorizations require the involvement from different departments. It is fundamental for TD's get the necessary collaboration with other departments and the OM should reflect this.

The simplified figure Figure below, inspired by Olaf de Hemmer Gudme's article 'A new strategic role for purchasing'(Hemmer 2017) illustrates the relations of TD's with other stakeholders and the value added generated.

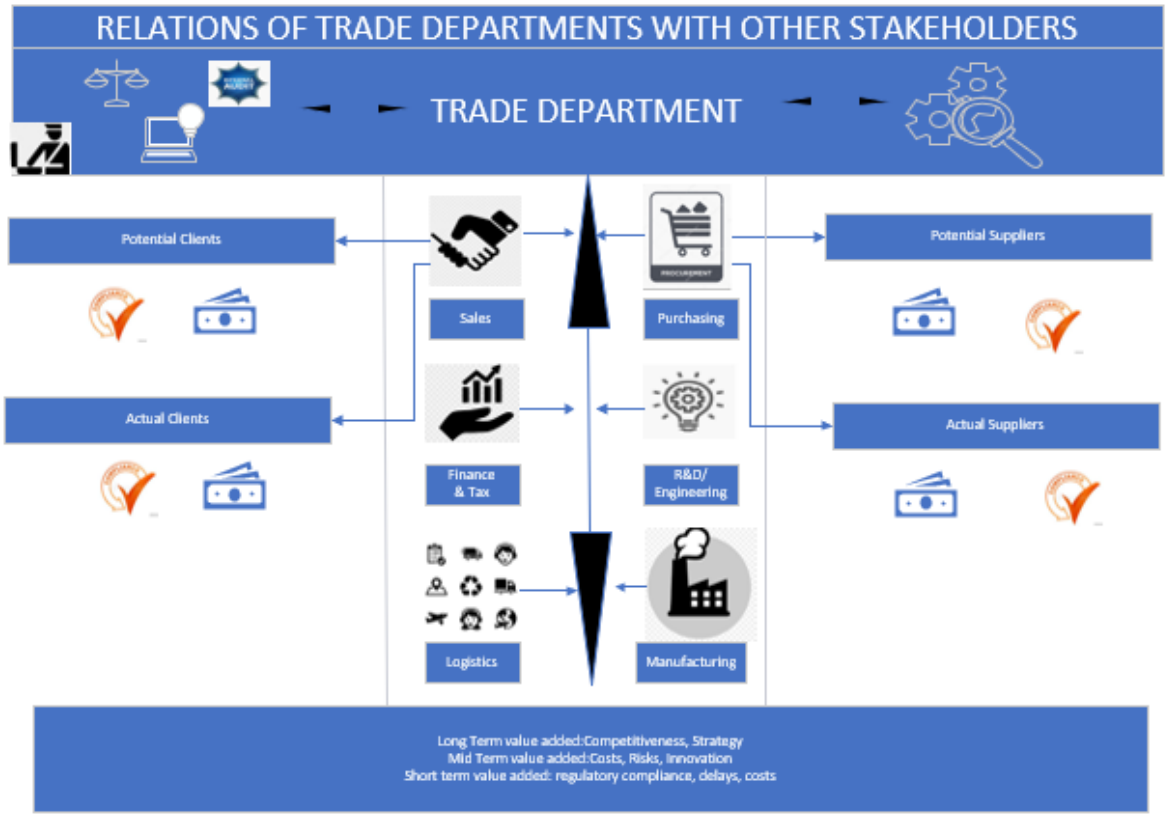

FIGURE 4
Relations of Trade Departments with other stakeholders

3.5 TOOLS USED BY TRADE DEPARTMENTS

Not only it is vital that TD's invest in the right tools but also that they adjust and adopt new technology solutions and techniques to improve their efficiency and opportunities.

In a significant number of countries customs procedures are highly automated and rely on web data exchanges as well as supporting EDI sources.

How are TD's going to adjust to expectations with developments of technology whilst dealing with different countries even within customs unions like the EU?

How are TD's going to deal with the increased business and supply chain complexity without appropriate automation?

In a 2019 study, KPMG (2019) list the factors that are driving the difficulties faced by tax departments and their data management as the being the following:

- The use of multiple systems and the need to maintain legacy systems
- The problem in extracting data from those multiple systems, having them 'talk' to each-other or bringing together data from multiple systems
- Manual adjustments and data reconciliation issues
- The continuation of historical ERP practices configured for the benefit of business and finance and not for the in-house tax departments.

In addition, the participants of the study claim that they are unable to fully comply with tax laws because of system limitations and find themselves implementing work-arounds or manual processes to manage the compliance. The similarities of the difficulties described above by tax departments and the difficulties of TD's are very strong.

An article published by Ernst & Young in January 2020, highlights the difficulties TD's face because of legacy systems, master data inaccuracies, parameters of historically optimal trade flows evolving over time, new goods and trade flows, non-optimized FTA usage, transactional data sitting with external parties amongst others. One of the solutions TD's have adopted to improve compliance targets and data management is IT-GTM more commonly known as GTMs.

Hausman et al describe IT-GTM as the set of information technologies and software solutions that can be used by companies to streamline the performance of their global trading processes (Hausman et al, 2010)

According to the authors, these solutions are used in lieu of the manual processes in import/export management; compliance; origin management; electronic integration with trading partners and trade content management.

Deloitte's Survey (Deloitte, 2017) confirms that just over half of the survey participants use some kind of automation mostly for day to day operational tasks such as classification, storage and documentation. Also, it is worth noting that the greatest usage of GTMs was by participants in the Industrial Product, Technology and Life Sciences industry with a large majority being multinational companies with annual revenues of more than $1billion.

However, the tools currently available in the market address specific technical requirements such as classification, origin calculation and documentation they seem to fail to address critical issues related to a lack of master data organization, poor quality and poor collaboration.

The result is delay in the supply chain generating costs and risk connected to regulatory requirements due to waiting or lack of information or mistakes due to missing critical resources, insufficient documents/information, mistakes etc…

As commonplace opinions on TD's are that they are a back-office function taking care of the red tape required to get the goods moving, IT projects relating to customs not are often not analyzed in a critical fashion and in line with the strategy of the organization. They come across as a specific department need rather than a part of the value chain to minimize duty payments and secure compliance.

Hausman et al (2010) observe that management often fails to see that process improvements generated by investments in IT -GTM and other tools and how they can translate into 'operational improvements and cost reductions as well as business value for trading partners' (Hausman et al, 2010). This explains certainly why TD's very often face a top management reluctant to invest given the amounts required and the lack of visibility on the results of the investment

We can also add that in most circumstances the procurement process is not adequate for this type of solutions and doesn't work very well. Decisions are also controlled by other departments such as procurement and IT with a huge risk aversion. Further, customs people are often incentivized not to take risks and all standard problems connected to systems remain a mine field that TD's are stuck with.

3.6 CONCLUSION

Firstly, in this chapter we started by making the 'inventory' of the current situation in relation to the TD's mission, role, responsibilities and position within the organization. We can conclude that the role of TDs has changed. Geopolitical tensions, Trade Wars, Brexit, Global Tax regime changes (OECD BEPS, DPT demand greater transparency), increased compliance requirements and new legislation, changing FTA's and changing expectations from Trade & Customs authorities have made the scope of TD's much wider and has extended the field of responsibilities and potential liabilities connected to it. Organizations should be aware of this. The difficulties highlighted in this part of the thesis relate to the lack of clarity of the mission statements and strategy even though the objectives of these departments seem to be clearly identifiable. The other difficulty is the lack of clarity of the legislative framework which fails to clearly define the role, the responsibility and the potential liability.

Secondly, we have addressed the topic of resources, their number and profile and the location of the department in the organization. The findings suggest that not only TD's are understaffed, but the profile and competence/capacity of the individuals dealing with Trade are not systematically aligned with the requirements and ready to face future environment and technology changes.

There is a growing need for training to keep trade compliance professionals updated on the latest regulatory changes and technology needs. A more sophisticated resource planning is, more than ever, key to be prepared to address performance and meet the business needs.

We also note that TD's aren't necessarily located within the ideal structural environment and that the reporting lines and other constraints such as different priorities and budgetary restrictions can affect the accomplishment of their mission. In addition, the challenges TD's face within the organization linked to lack of knowledge, interpersonal conflict also highlight a very important aspect that is preventing TD's from bringing their full value added to the organizations.

TDs seem to be suffering from problems of organization design with missing layers of management resulting in oversight of important things, confusion, miscommunication duplication, work does not get done, missed deadlines etc. Another major challenge identified is the difficulties TDs face in meeting expectations of external parties such as customers and regulatory authorities. The tension between increasing workloads and reduced resources compels TD's to seek resources outside of their organization without necessarily having the means to audit them and check the quality of their work. The relationship with the regulatory authorities based on the notion of partnership is very complex and even though there are tangible benefits the level of investment and the number of constraints that multinationals face do not seem to justify the benefits.

Finally, we address the current situation in relation to data and tools. TD's suffer from a lack of centralized oversight, a lack of visibility to critical data, the fact that current GTMs do not and will not address all the issues and a lack of investment in the right technology. All these areas represent urgent priorities.

4 OPERATING MODEL

Alfred Chandler explains in his thesis how in the 20's American organizations adapted their organizational form to address the challenges of growth and diversification.

In today's world, it is still true that organizations need to adapt to support strategy but their challenges in are even stronger due to globalization and other parameters.

Marcia Blenko makes this point in her article by stating that 'nowadays the challenges organizations are suffering are even more complex as they must be designed to support many more growth avenues, including new products, new steps of the supply chain, new geographies and new customer segments and new channels' (Blenko and Root, 2017). We can add to this list an ever more challenging and changing regulatory environment and poor infrastructure response to match the strategy.

In addition, Porter and Heppelmann in their article on how AR will change business and the way they work argue that departments in general, are also suffering from organizational pressures as the DNA of goods is also changing (eg hardware now has a lot more software content) (Porter and Heppelmann, 2015).

The authors examine the implications external to the firm, looking in detail at how smart, connected products affect rivalry, industry structure, industry boundaries, and strategy.

They make an interesting comparison between the past when software companies and industrial companies had no overlap in terms of location, culture, talents and age profile, clock speed (changes to software days, hours whereas industry months), different investment criteria (people spending on engineering very little capital in factoring/just computers) and how the business model is changing. The authors put forward the idea that classic organizations are changing from a product as a 'good' driven environment to product as a service. They also give the example of how classic organizations are reengineering their offers to meet customer desires to buy a service and not even buy the software.

Another interesting observation is the disconnect between IT and R&D departments and how instead of having the supporting role they need to be part of the development teams and be extremely proactive to cope with rapid changes on a regular basis.

In addition, the authors argue that what is under way is perhaps the most substantial change in the manufacturing firm since the Second Industrial Revolution, more than a century ago.

TD's are already witnessing these changes and their implications on a daily basis for example with the classification of goods and export control implications for goods which initially didn't host any technology and that currently do.

80 percent of the CEO's claim to have transformations in place to make their business more digital and 87 percent expect to see a change in their business models within three years (Bains, 2015).

As the rate of change appears to be on the rise most managers should no longer think about stabilizing their organization but rather to design a structure to keep up with the changes. 'Adaptation is a key to organization survival, and strategy a mechanism to guide them through the necessary change' (Hatch, 2013).

But the rapid pace of change is not only connected to a change in the business model and new technologies.

One could also witness rapid changes and the need for adaptation during the COVID-19 pandemic in March 2020 when a significant number of organizations had to change their strategy to adapt to a new environment. In this specific situation, TDs also had to adapt and required the agility to cope with unprecedented challenges such as remote work without the right systems and the right data in place, a lack of expertise for moving medical and PPE equipment and even changes in

manufacturing practices requiring a different regulatory framework (some companies engaged on PPE/masks manufacturing) just to name a few of the challenges.

This new environment demands changes in the approach to the organization of TDs.

These challenges and opportunities make it worthwhile to attempt to design an OM that can help TD's to be more efficient.

4.1 DEFINITION OF AN OPERATING MODEL

The origin of the term OM is not clear but some of the earliest sources date back to the 19th century and relate to the engineering domain rather than the business context.

The majority of sources in the academic world relate to IT within the business context and started emerging in the late 70's and early 80' (Ross, Jane MIT 2005). Ross defines four alternative OMs based on the level of standardization and integration. This IT approach of OMs is further developed by multinationals such as Boeing, Tesco and Prudential to explore how IT systems can support their model. In her paper, Operating Model: An exploration of the Concept (2019) Dr Nicola Bateman makes an inventory of the evolution of the concept and explains how even the term model should be replaced by the terms operating system as it summarizes the system of operations. 'However – for practical use most businesses use a representation of an Operating Model rather than the Operating Model itself' -ex Campbell et al (2017)'.

The following definitions were selected in the literature reviewed:

'The OM is the necessary level of business process integration and standardization for delivering goods and services to customers.' According to Professor Ross critical IT and business process capabilities are defined through the identification of integration and standardization requirements.

'The OM is a template of how an organization should get organized to deliver its best performance in support of the strategy of the company it belongs to. It should provide for a language and concrete tools to help managers organize their departments at all levels and within different situations.' Blenko M. Bain & Company (2015).

Marcia Blenko goes further to explain that an OM translates strategy into execution and if this is not explicitly designed the execution can hit major road blocks.

'An OM is a visualization (i.e. model or collection of models, maps, tables and charts) that explains how the organization operates to deliver value to its customers or beneficiaries' Campbell (2016).

'An OM is the design of your business that makes it possible to deliver your business strategy and service proposition' OEE Consulting (2017).

'The OM is the operational design that makes it possible to deliver the business strategy. It is the blueprint of how an organization operates across a range of domains to deliver its objectives. SOMS (2017).

Even though the wording of the definitions varies across the authors, we can summarize an OM as a critical organization 'tool' that enables organizations to deliver on strategy.

Campbell et al divide the OM into two types:

1. High-level OM: focuses on the link between strategy and operations and also between business models and OMs
2. Detailed OM: focuses on the design decisions for an organization to function with a high-level OM

4.2 ELEMENTS OF AN OPERATING MODEL

The lack of academic literature in the field of OMs is one of the limitations of this study. We can see in this chapter, that the majority of the elements we refer to are mostly recommended by consulting firms. We therefore need to bear this in mind when approaching the available literature.

The elements of an OM are illustrated in the table below by Dr Nicola Bateman in her exploration of the OM concept. The table summarizes how different organizations (companies, consultancies and academics) represent the OM key elements.

<table>
<tr><th></th><th>OEE Consulting (2017[2])</th><th colspan="2">Boeing In DuPont (2104)</th><th>Campbell et al. (2017) POLISM</th><th>Bain in Cooper et al. (2012)</th><th>SOMS (2017[2])</th><th>EY (2016) Core other</th></tr>
<tr><td rowspan="8">Core elements of Operating model</td><td>Service proposition (SP)</td><td colspan="2">Channels</td><td rowspan="2">Value propositions</td><td></td><td>Customer experience (CE)</td><td>service delivery</td></tr>
<tr><td>Journey and process (J&P)</td><td colspan="2">key activities</td><td></td><td>Delivery (D)</td><td>process</td></tr>
<tr><td rowspan="2">Management framework (MF)</td><td colspan="2" rowspan="2">Organisation</td><td rowspan="2">Management system</td><td>Key strategic metrics</td><td rowspan="2">Performance Management and improvement (PM&I)</td><td rowspan="2">performance management,</td></tr>
<tr><td>Accountability</td></tr>
<tr><td>Technology and infrastructure (T&I)</td><td>business capa-bilities</td><td>key re-sources</td><td>Information</td><td>Super-structure</td><td>Process context (PC)</td><td>IT</td></tr>
<tr><td rowspan="2">People, culture and organisation (P,C &O)</td><td rowspan="3" colspan="2">key partnerships</td><td>Organisation</td><td rowspan="2">Governance</td><td rowspan="2">Strategy governance and leadership (S,G&L)</td><td rowspan="2">Governance, Org design and structure,</td></tr>
<tr><td>Suppliers</td></tr>
<tr><td rowspan="2">Location, function and teams (LF&T)</td><td rowspan="2">Locations</td><td>Behavioural expectations</td><td rowspan="2">People capability (PC)</td></tr>
<tr><td>Talent requirements</td><td>culture and values</td></tr>
<tr><td rowspan="2">Other elements</td><td></td><td colspan="2">cost structure</td><td></td><td></td><td>Demand and capacity management (D&CM)</td><td>design principles</td></tr>
<tr><td></td><td colspan="2"></td><td></td><td></td><td></td><td>risk</td></tr>
</table>

TABLE 2
Bateman N, Summary of elements of Operating Models

The approach of OEE consulting put forward by Dr Nicola Bateman to assess the efficiency of an OM can be a very useful tool.

Another interesting approach taken by certain consulting companies can be visualized through the example in Table 3 which illustrates the OEE consulting conflict matrix. As we can see it represents an audit of the elements of the OM against the company strategy and then against each of the other elements of the OM to ensure that no major conflicts occur. According to Bateman (Bateman, 2019), OEE regard the 'OM is not designed to be perfect, finer tuning towards perfection should take place at a more process level'. However, this approach requires an overly lengthy review which, according to Bateman, can be avoided by taking a combination of Du Point approach and Bains as reflected in table above. This dual approach enables the internal logic of the OM to work whilst meeting the strategic needs of the organization.

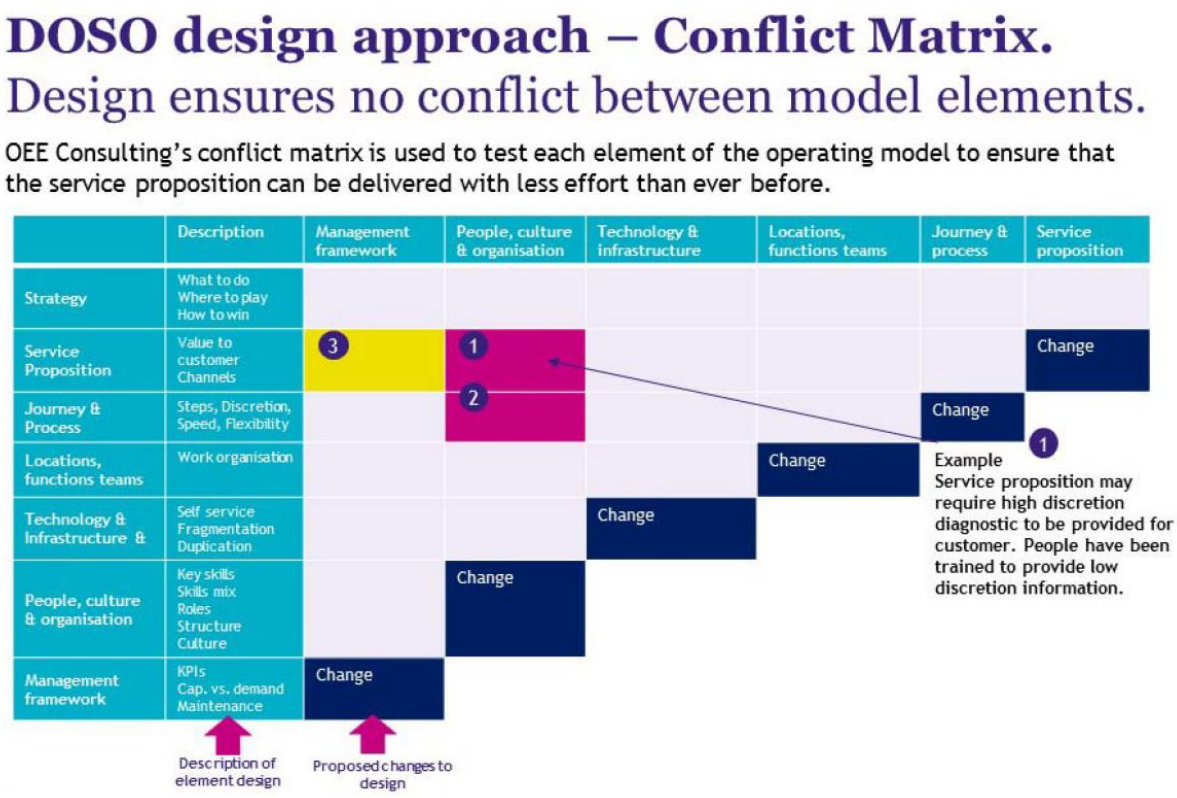

TABLE 3
OEE DOSO Design Approach - Conflict Matrix

4.3 INTERACTION WITH BUSINESS MODEL AND STRATEGY

The expression business model has been part of the business jargon for a long time and dates back to the writing of Peter Drucker. Although there is no widely accepted definition Magretta defined business models as 'the stories that explain how enterprises work', and follows Drucker in defining a 'good business model' as the one that provides answers to the following questions 'who is the customer and what does the customer value'? and what is the underlying economic logic that explain how we can deliver value to customer at an appropriate value'? Masanell and Ricart (Casadesus-Masanell and Enric Ricart, 2010) argue that a business model is a reflection of the firms realized strategy [5].

It has become uncontroversial to assume that a good understanding of how business models work if their organizations are to thrive, but the academic community is yet to agree as to the distinctive features of a superior business model. Masanell and Ricart believe that this is partly because of a lack of clear distinction between the notions of strategy, business models and tactics.

The authors distinguish the concepts as follows:

- Business models refers to the logic of the firm, the way it operates and how it creates value for its stakeholders; and
- Strategy refers to the choice of business model through which the firm will compete in the market place; while
- Tactics refers to the residual choices open to a firm by virtue of the business model it chooses to employ.

5 Masanell and Ricart argue that in simple competitive situations it is difficult to separate the notions of business model and strategy and there is a one to one mapping, whereas in situations when there are important contingencies the concepts of business model and strategy differ.

The authors argue that not only does a firm's business model determine what range of tactics are available to it but also its tactics play a central role in how much value the firm will be able to create and capture at the end of the day. More than this, tactics also affect the value creation and value capture of other firms with which it interacts, either in cooperation or in competition (ie tactical interaction).

The understanding of these notions is key to determine the OM of the organization and by consequence the OM of the TD's. Organization leaders need to develop a clear sense of their strategy and the business models they want to use since they will both directly dictate the OM.

In their book 'The Strategy Journey', Julie Choo, lists the OM as one of the five models that help leaders navigate different stages (eg leadership, business design, value creation). In this framework, the OM describes how the organization will implement strategy and tactics that have been defined in the business model and the value proposition.

Figure 5 below from Bain & Company illustrates how an OM bridges the gap between the business model of an organization, its strategy and the execution.

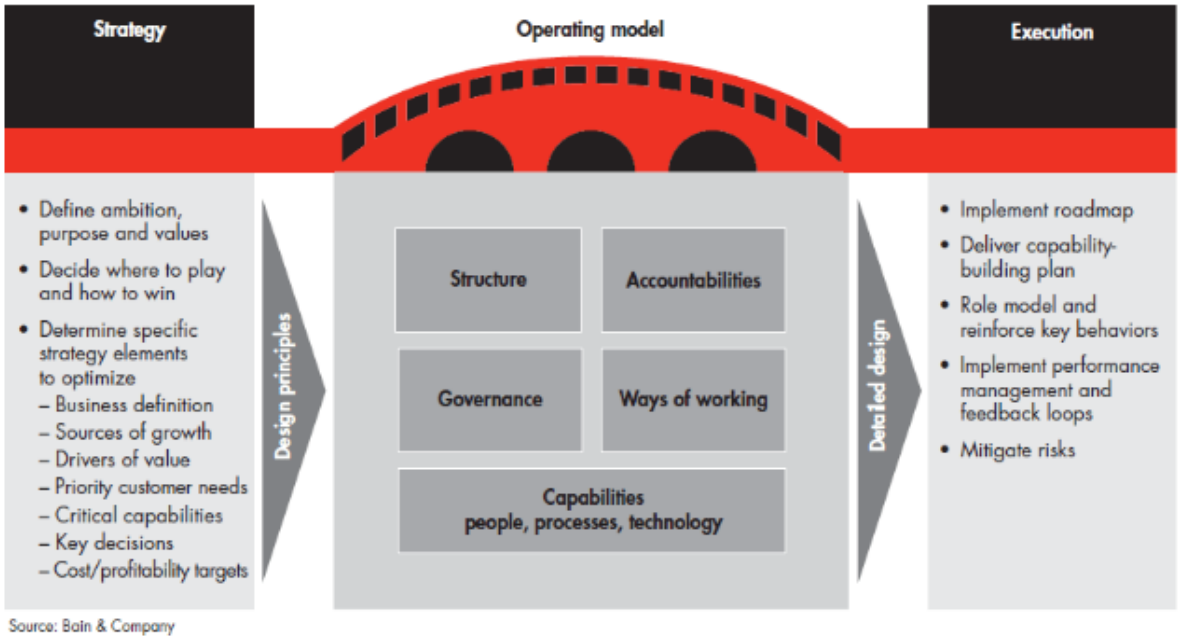

FIGURE 5
Interaction Strategy and Operating Model - Bains & Company

4.4 OPERATING MODEL OF DEPARTMENTS WITH SIMILAR PATTERNS

4.4.1 LEGAL

The gap regarding Legal Departments OMs in academic literature is very significant. I have nevertheless considered other articles published by law firms and certain consulting firms to leverage knowledge on the current environment and proposed solutions.

Currell and Kotok in their article 'Is the legal Operating Model about to crash?' agree that the OM under which legal counsel and their legal teams have traditionally operated is clearly unsustainable for its outmoded, lagging behind and reaching the limits of capacity' (Currel and Kotok, 2015).

The authors believe that "Legal can no longer think of itself as mainly providing direct support to the business. Instead, it needs to embody the goal of increasing the business's capacity to make, learn from and reduce the cost of legally informed decision-making."

The authors recommend a transition to a new model through fundamental changes in the department's service portfolio, delivery model and sourcing model.

For this to happen, the authors recommend assessing alternatives like 'self-service tools' and outsourcing tasks to get internal resources to tackle more higher-value and strategic work.

Chas Schmidt, in his article 'Re-thinking the legal department's operating model' (Schmidt, 2016) proposes a five levels model to assess the maturity of the company and help with the design of the new OM.

'The model identifies five levels of corporate legal maturity, including:

- Manual Processes. This represents the lowest level on the spectrum and generally indicates a legal department has only the most basic levels of efficiency in place.
- Deployed Technology. This level indicates that the legal department has some technology systems in place such as standard reporting, billing guidelines, matter journals and documents and an RFP processes.
- Integrated Information. The legal department has some more sophisticated levels of efficiency in place such as: legal dashboards, matter calendars, comprehensive matter visibility and aggregated budgets for example.
- Data Driven Decisions. The legal department is on its way to reaching full maturity and indicates the legal department has some of the following key efficiencies in place: analytics, standard key performance indicators (KPIs), matter project plans, variance analytics and law department scorecards.
- Predictive Results. At this, the full maturity stage, corporate legal teams typically have the following efficiencies in place: scenario modeling, real-time alerts, collaborative decisions, data-driven forecasts, law firm optimization and win-win'

This approach partially covers some of main elements of the OM proposed by Deloitte to tackle the difficulties faced by legal departments described below (i.e. processes, data and technology)

In a 2019 report titled 'Transform your legal operating model', Deloitte acknowledge that legal departments suffer from a lack of mission and strategy definition and propose the Model below as an improvement to the traditional model currently being used (Deloitte, 2019).

Legal Departments seem to be suffering from similar 'symptoms' to TD's when it comes to the mission and strategy definition inevitably cascading down to the OM layers and their efficiency.

The authors observe that 'in their experience, few organizations have a properly articulated legal operating strategy which is communicated both within legal and to the rest of the organization. To the extent a strategy exists, it has typically arisen by default in response to the demands of the organization rather than being specifically thought out, and it often resides in the heads of the legal function leadership rather than on paper.'

Having defined the legal operating strategy and refined the governance model, roles and responsibilities, the team managing the function can turn their attention to the other enablers: people and sourcing, technology, process, matter management, management information and legal risk management.

Figure 6 below illustrates the main layers of the proposed OM transformation Deloitte proposes in their article (Deloitte, 2019).

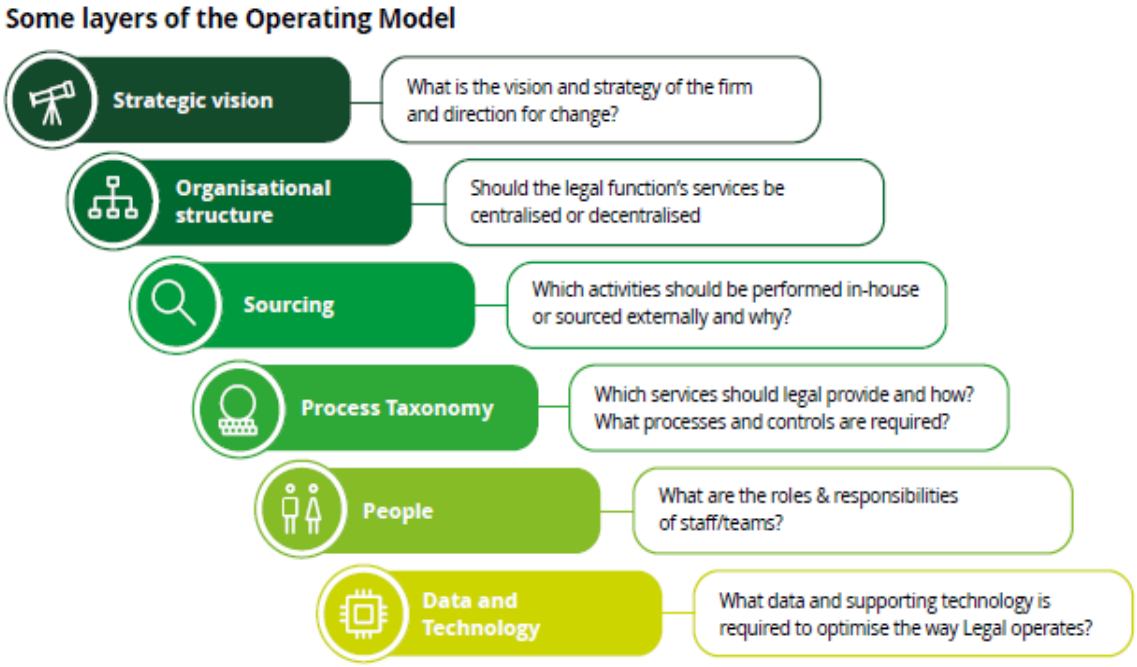

FIGURE 6
Deloitte's Legal Operating Model

We can observe similarities between this model and the elements summarized in Table 2 since the elements listed cover, strategy, organizational structure, sourcing, processes, people, data & technology but the model clearly doesn't give any indication as to how it would adapt to the underlying organization business model, strategy and value proposition.

4.4.2 TAX

Similar to the legal departments, the academic literature gap on tax departments OM's is very significant. This is the typical example of where consulting firms are trying to fill in the gap with technology solutions and consultancy fixes.

However, the content of some of the articles may be helpful to understand the current environment and observe the ideas put forward to make OM's more efficient.

EY's survey 'The intelligent tax function 2020', demonstrates that new tax OM's will need to be in place within the next few years and that the function needs to be more tightly integrated with the rest of the business from an operational perspective (Ernst & Young, 2020).

The authors state that 'Artificial intelligence will increase the opportunities for applying human intelligence. Tax professionals will be able to analyze data, adding another skill to their tax resumes. The data aptitude gap that exists in today's tax function will close rapidly over the next five years as companies hire more technologists and data scientists, and supplement tax technical training with training on data management and analysis.

This combination of higher data quality, automation, new skill sets and realigned responsibilities creates the best chance for tax functions to achieve the aspirational yet elusive mode of focusing on high-value activities to create the intelligent tax function.'

Similarly, PWC's article 'Tax Operating Models: Technology Disruption in Sourcing Decisions' which is part of a series of articles about the Tax function of the future, focuses on the options of the sourcing element of OM's to enhance the tax function (PWC, 2017).

The authors use 5 trends to illustrate the implications of different options: transformation, emerging technologies, tax professional skill sets, transparency requirements and CFO focused on reduced costs.

Regarding the first 'transformation' trend, the authors claim that even though Tax has focused on better access to source systems and data (with use of self-service tools for improved analytics, automation of activities) this is still limited to certain aspects of compliance or tax calculations.

The two questions put forward regarding this trend are:

1. whether Tax could benefit from the transformation already under way in the Finance function (since the financial data is a critical part of the most tax tasks) and leverage on certain investments such as SSC's, CoE's and investments of enterprise data and reporting
2. whether these changes could also trigger a change of OM for other areas such as for example transfer pricing and reporting and controversy

On emerging technologies, the article points out that AL and ML are impacting operations and enabling functions that had not been envisaged in the past and this should drive tax departments to assess what activities to invest in through the use of a digital workforce.

The third trend is a consequence of the two first trends and it considers how the new technology environment Tax professionals not to be just professionals in tax regulations but also skilled in technology applications and management of technology internal projects.

The fourth trend is also related to the two first trends as it relates to how the tax authorities are using the latest technologies to support their demands for increased tax transparency and questions whether the current technology environment of the tax function can support the new requirements.

Finally, the fifth trend highlights the need to strike a balance between the additional investments in technology, people and processes required by tax departments and the fact that CFO's are increasing focusing on reduced costs and how Tax departments need to be able to make the business case.

In her article 'Facing COVID-19 challenges with an agile tax-operating model', Terri LaRae (Terri LaRae, 2020) assesses the need for tax departments OMs to evolve and points out that whilst moving quickly to address immediate needs is critical, leaders also have an opportunity to think strategically and design a more agile tax OM that, through the amplified efforts of humans with technology, can flex and scale to fit the uncertainty they face now and in the future. The author suggests that as tax departments navigate this unprecedented environment, tax leaders can use a phased approach to their planning to overcome the challenges presented by focusing on five essential questions:

1. Is your data ready for a virtual tax department?
2. Does your current technology support virtual collaboration the way you need to?
3. Have you noticed a significant dip in productivity since the shift to a virtual workplace?
4. Do you have inconsistent processes that a virtual workforce may find difficult to follow?
5. Are you concerned about data security and controls after such a change in how you work?

To reply to the first question the author highlights the importance of the infrastructure availability to access, control and report on the data required to drive tax calculations and processes and insists on the need to identify critical data and make it available for remote work in a way that its integrity and efficiency of tax calculations are maintained.

The second question is addressed by the author through the implementation of a collaboration platform supporting visibility on processes, document-sharing, workflow and calendar tracking and other critical project management elements.

The issue of processes standardization and its amplification during a crisis is considered in the reply to the fourth question where the author emphasizes the need to develop a process enhancement strategy that further simplifies and standardizes whilst supporting long-term plans to 'enhance the levers of data, technology, people and governance'.

Finally, in the reply to the fifth question the author suggests to map out the most critical tax processes, accountabilities, and internal controls to secure they operate efficiently in a virtual environment combined with a formalization and roll-out of a response strategy.

Again, in the articles selected for the tax department OM we see similarities between the authors approach and the elements of summarized in Table 2 even though here we can see more emphasis on technology.

This approach can be helpful in building the new OM of TD's, however, even though technology can bring tremendous advantages (specially in a virtual work environment) one should bear in mind that technology is only one component of the OM and that adjacent functions and dependencies are just as critical and also need to be considered.

4.4.3 INTERNAL AUDIT

According to the Institute of Internal Auditors "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

Anne-Sally Pitt in her paper on 'Internal Audit quality- Developing a quality assurance and audit program' (2014) highlights that Internal audit activities assist an organization to accomplish its visionary objective through a systematic and disciplined approach to assessment and thereby enhancing the effectiveness of internal control, risk management and good governance.

In 2010, three surveys commissioned by Crowe Horwath LLP reveal that internal audit teams handle the basics (such as testing past events and controls over financial reporting) well but fail to inform stakeholders of two critical concerns: how the company is doing today and the areas with room for improvement. 'Collectively, these surveys support the evolution of the internal audit model to a new, more proactive one. This new model must respond to the existing concerns about greater assurance, maximized business performance processes, and broader risk management efforts – while providing for traditional compliance audits as well' (Crowe Horwath, 2010).

9 years later, the report published by the Chartered Institute of Internal Auditors in London in October 2019 (CIIA, 2019), illustrates the pros and cons of different models of Internal Audit supposed to structure and deliver effective internal audit. This report, aimed to encourage the improvement of the function, started from the premise that there was no recommended formula within the International Professional Practices Framework to draw upon to ensure an effective internal audit function and concludes that 'there is no right or wrong way' to deliver internal audit.

'Organizations need to be free to choose what works for them according to the nature of what they do, how the organization is structured, the way processes operate, their financial circumstances and the risks to their strategic objectives'.

The case study focuses mainly on six delivery models chosen by different profile organizations which are classified as follows:

1. Centralized in-house teams
2. Distributed in-house teams
3. Shared Services
4. Consortium arrangements
5. Co-sourcing agreements with external providers

6. Outsourcing

The attributes used in this study to measure the success of different models are:

1. Excellent knowledge of the organization and the sector(s) and markets it operates in
2. Specialist knowledge and expertise to provide a wider range of assurance eg in areas of IT, project management, treasury, customer relationships, contracts etc.
3. Flexibility and responsiveness to emerging risks and issues
4. Confidence and trust of senior management to be involved in major projects and change
5. Independence and objectivity
6. Risk based internal audit planning and an agreed audit methodology
7. Providing advice and guidance to support organizational objectives through consultancy
8. Consistent levels of service delivery
9. Coordination and collaboration with other assurance providers
10. Effective teamwork
11. Career development opportunities within the internal audit function or wider organization
12. Commitment to quality and continuous improvement

The benefits and the challenges of the different models have been summarized in Table 5 illustrated in Appendix 1.

We can observe that the models represent a number of advantages and challenges.

However, the models assessed mostly focus on organization structure and management systems and fail to encompass critical core elements such as data & technology and processes & controls.

In his ACAMS (Audit) White Paper on 'How a well-defined target Operating Model can enhance AML risk management in general and Internal Audit in Particular', Marcus Keisers discusses the considerations across the organization in developing a TOM (Target Operating model) to manage AML risk comprehensively and effectively (Keisers, 2019).

Keisers describes the challenges to meet the FED's recommendation to large banking organizations operating with multiple business lines and legal entities in different jurisdictions requiring a firm-wide approach for compliance risk management, especially in the area of AML.

According to Keisers these challenges arise from the fact that business activities often span around the globe and across jurisdictions translating into different regulatory requirements that can have a multinational impact and which need to be analyzed and transformed into different policies, procedures and controls. In order to do this, various stakeholders need to cooperate.

If there is no ownership these requirements may fail to be identified and the required framework to cover that risk with no blind spots may not be adequately implemented.

Keisers recommendation to meet regulatory expectations, is that risk management should start at the governance level, including well-defined organizational responsibilities.

These well-defined organizational responsibilities typically referred to as the three lines of defense (3LoD) within the banking environment provide activity based guidance which can be depicted and further transformed into a TOM to ensure a comprehensive, structured and holistic firm-wide compliance approach as illustrated in figure 7 below.

However, to transform the 3LoD into an effective TOM, Keisers points out the importance of risk definition and further major associated risk types as a pre-condition.

Clarification of compliance risk and definition of specific risk types helps to further clarify roles and responsibilities according to the 3LoD.

'In addition, the importance of AML risk, which, unlike other risks, is not only quantitative in nature but carries a lot of qualitative aspects, can also be emphasized. In this context, it is normally no

economical approach you can take to manage AML risk (like for credit risk when accepting a certain probability of default), but rather, a zero-tolerance approach. All these aspects should be taken into consideration when defining AML risk.'

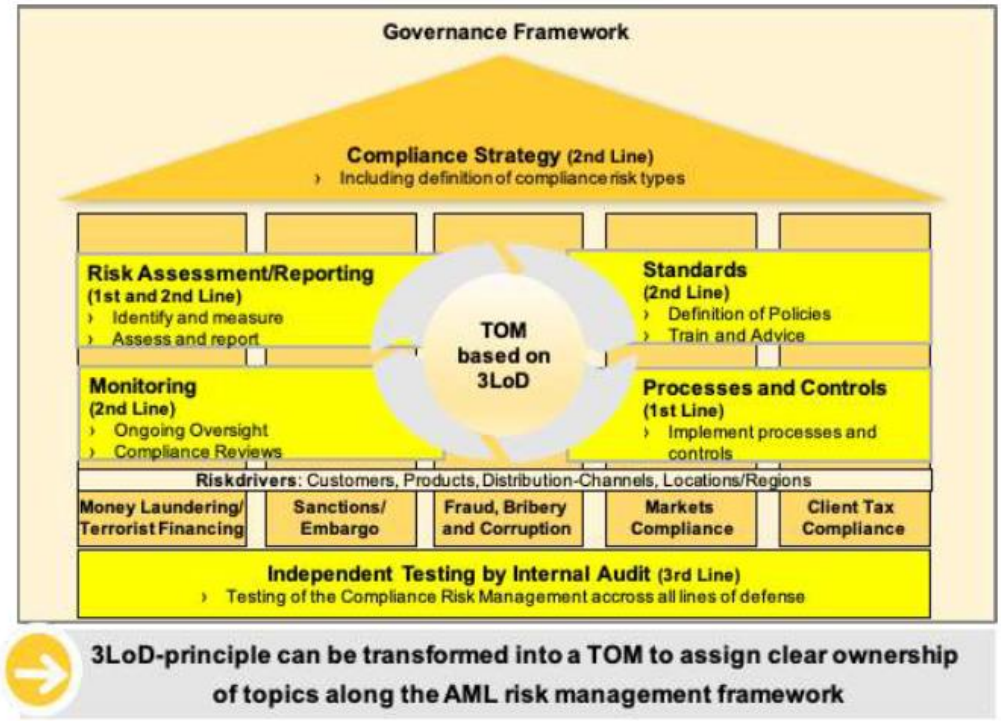

FIGURE 7
Keiser's internal audit Operating Model

Finally, reflecting the TOM in all its dimensions will enable the function to:

- Identify and audit the right processes and controls with no blind spots or gaps
- Demonstrate completeness and consistency in coverage of requirements
- Inform all stakeholders adequately about the status and effectiveness of the risk management framework/program

There are significant similarities in terms of the needs to implement an effective OM to meet regulatory expectations in different regions and the associated risk type in the internal audit banking function and the trade function.

We will draw a parallel of this approach regarding risk with Trade Compliance Risks when designing the OM of TD.

4.4.4 IT

In IT OMs in practice and research Thorogood, Gewald and Brune (2012) define the IT OM as 'the organizational structure and processes through which the IT department delivers its services to the business'.

The authors argue that a good OM explains what IT does and the interfaces with business executives. A savy CIO will use the OM as organizing framework for the businesses whereas other business executives will use it to engage with IT and influence IT outcomes.

An effective OM is a critical tool for communicating and aligning with the business.

The authors propose that the ideal OM needs to combine a balance between explanatory abstraction (so that business peers can understand) and specifics of structure and process to be actionable and implemented by the IT managers and staff.

In this paper, the authors propose a holistic IT OM represented by figure 8 and consisting of processes, organizational structures, methods and tools for each component as well as their integration. The authors argue that the 7 building blocks (enterprise architecture management, infrastructure management, service management, demand and supply, project management, IT performance management and support services) not only need to align internally with a consistent IT strategy but also with the overall business strategy.

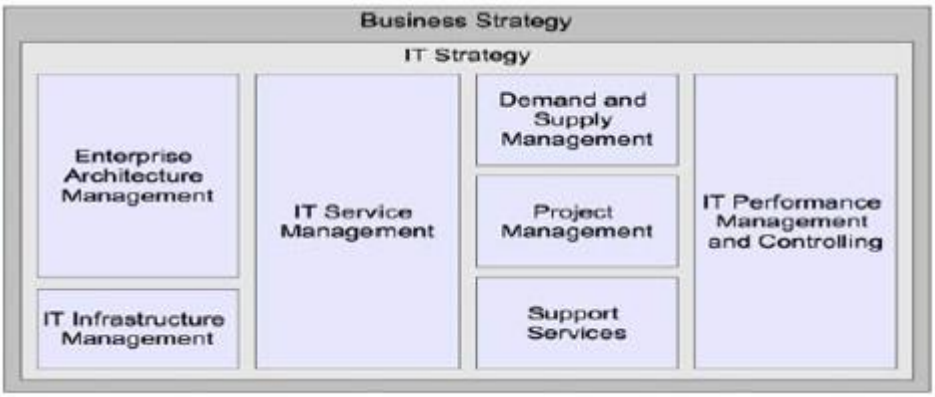

FIGURE 8
Thorogood, Gewald and Brune: Holistic IT Operating Model

In her paper 'Forget Strategy: focus IT on your OM', Professor Ross claims that 'to make IT a proactive - rather than a reactive – force in creating business value, companies should forget about strategy and focus on defining an OM. The author claims that strategy rarely offers clear direction to build stable IT and business process capabilities because strategy is multi-faceted and strategic priorities can change.

In contrast the author claims that companies should focus on building an effective OM.

Professor Ross puts forward 4 alternative OMs illustrated in the figure below and believes that although most companies can identify processes fitting every OM they need to select a single one to guide management thinking and systems implementation. Choosing an OM will enable IT departments to determine priorities for development of digital capabilities and thus IT investment. These IT investments will not only address immediate business needs, they also digitize key business capabilities 'thereby building a foundation for future business initiatives'.

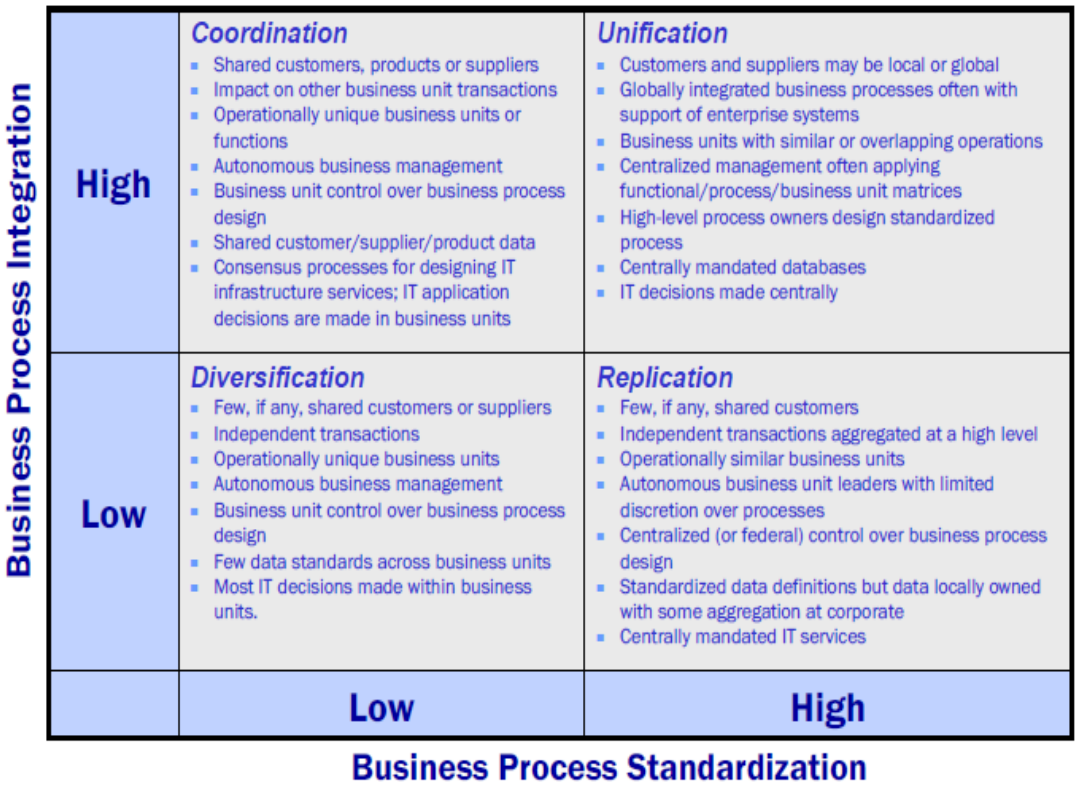

FIGURE 9
Ross, Jeanne: Characteristics of four Operating Models

Professor Ross explains that companies make two important choices in the design of their operations:

- How standardized their processes should be across the different entities, regions and business units, functions
- How integrated these processes should be across those units.

In making these choices the company is targeting one of the four viable models shown in the figure above which have been named as follow: Diversification (low standardization and low integration), Unification (high standardization and high integration), Coordination (Low standardization and high integration), Replication (High standardization and low integration).

By choosing an OM a company benefits from the paradox 'standardisation leads to flexibility'.

This research shows that companies and industries have a strong preference for the unification model, even though this model requires a great deal of time, money and management focus. However, it provides a 'thick foundation of digital capabilities to leverage in future business initiatives' .

According to the author, research shows that companies have more business agility by benefiting from the foundation (of technology, processes and data) built through their choice of a single OM. However, this doesn't exclude the choice of different OM at different levels to meet the multiple objectives of a large and complex company and still keep the design simple.

This approach is valuable to combine with other approaches when designing the OM of TD's.

4.4.5 PROCUREMENT

KPMG in 2013 performed a study on the High Impact of Procurement Models to understand how different procurement OMs (POMs) worked in various organizations. One of the aims of the survey was to determine the meaning of many of the terms that are frequently used to describe POM's (KPMG, 2013).

The governance structures used for the survey were 'Decentralized', 'Center-Led', 'Centralized' and 'Hybrid'.

The attributes taken into account were Governance, Commercial Model and Geographical Structure.

It was observed that the attributes of real-world OMs actually match the title by which they are referred to but most implementations incorporate a blend of OMs (eg it was found that even decentralized organizations still have many staff sited in a central location). The overriding message was that while almost all organizations make a use of combination structures the question is which structure dominates.

The survey also demonstrates that the configuration of these departments is based primarily on business needs. Many of the centralized companies were in the manufacturing sector where there is a greater focus on direct procurement. Hybrid models are the most flexible and probably the most cost-effective structures, requiring fewer buyers than the other alternatives.

This survey also demonstrates that the OM is designed to support the sourcing activities and strategy setting requirements rather than these being a product of the OM

On the evolution of the models, the survey also highlights the fact that most companies start from a legacy of decentralized structures, which a nascent procurement function seeks to consolidate in the center. After a period of full centralization, there is often a correction applied to the organizational structure which translates into a 'center-led' structure. We should bear in mind that this doesn't mean that the previous structure is totally abandoned, on the contrary, the benefits of previous structures are retained and accumulated with the future one as opposed to a trade-off between different models.

Center-led structures can enjoy the benefits of standardization and control that comes with centralization, while engaging directly with stakeholders (stakeholders proximity and responsiveness) and ensuring compliance at local level.

However, as the report underlines, even though recency of Center-led structures shows that they are the cutting edge of procurement thinking it is not necessarily the final destination for current or future organizations.

Another interesting point that transpired from the report is that outsourced procurement is an option yet to be fully explored. Indeed, not many organizations make use of outsourcing in their sourcing activities. There was significant variation among the different industry sectors. The automotive sector, often regarded as among the most mature in their purchasing, does not outsource any of the strategic elements and only outsources 15% of indirect expenditure.

The table below on future choices for centralizing organizations illustrates the fact that companies must prepare for two leading trajectories of travel: 'supercentralization' or 'decentralizing'.

On 'supercentralization', many organizations are exploring the possibility of breaking out of the upper limits of centralization by outsourcing categories to a third party provider and enjoy the benefits of scale and market intelligence even greater than their own.

On 'decentralizing', given that there are few genuinely global markets around which organizations can construct global category strategies, moving to increased decentralization better aligns with the majority of supply markets and typically means closer stakeholder relationships.

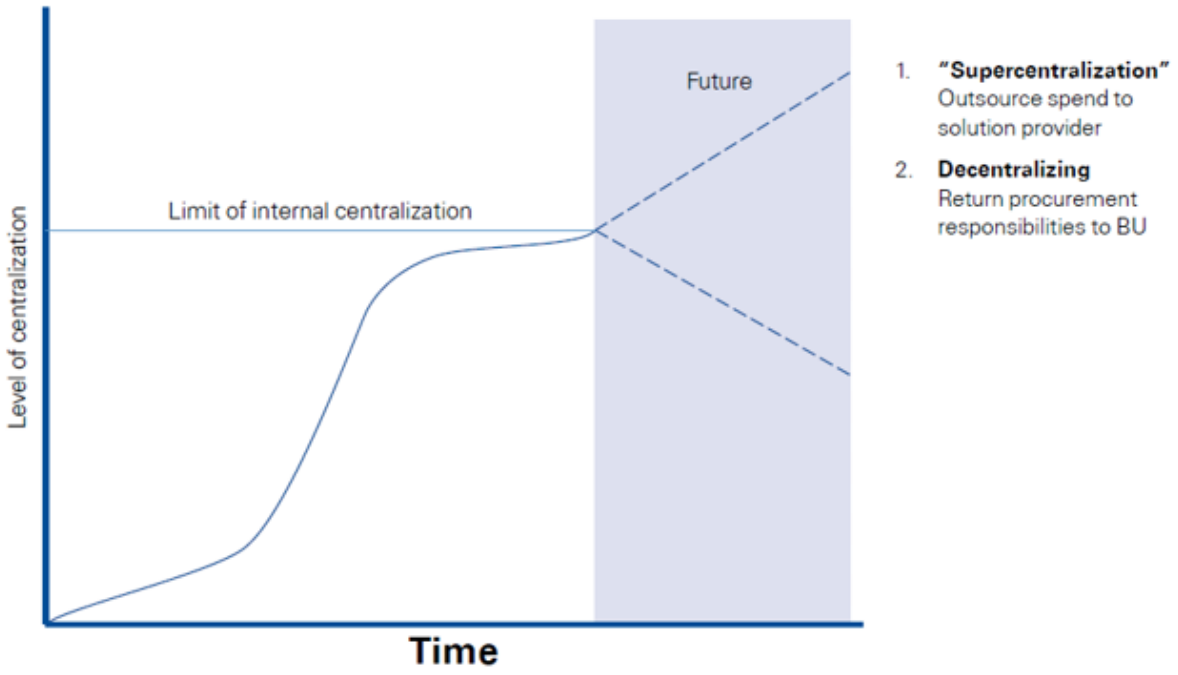

FIGURE 10
KPMG, Future choices for centralizing organizations

The survey finally emphasizes that as the function matures, the relative importance of savings (as expected from decentralizing models) often diminishes. Buyers seek projects with a broader 'value-add' such as improvements of operational efficiency (as often provided by center-led models). 'Finding the appropriate model must reflect a function's current level of capability as well as its intended destination' (KPMG, 2013).

The survey concludes that the OM of a procurement function needs to be consistent with a company's overall strategy, global organization, and culture. It also needs to be aligned to its supplier market. Balancing internal and external pressures is a difficult task – and the target is often a moving one.

Indeed, procurement functions must adapt, as they are impacted by changes such as new corporate strategy, evolving manufacturing footprint, disruptive supplier innovations, changing supplier panels, and higher savings objectives, all of which require increased flexibility (KPMG, 2013).

Fu Jia et al in his paper 'Global sourcing strategy and structure: towards a conceptual framework', acknowledges that sourcing on a global scale requires a more complex organizational structure to manage additional issues caused by cultural differences, long transportation distances and inadequate cost/benefit analysis. He also points out that for multinational corporations operating in a global environment, designing a global organization and maintaining control of dispersed value-adding activities and far-flung subsidiaries can be considered two of the most difficult challenges for managers (Ambos and Schlegelmilch, 2007).

Fu Jia et al propose a conceptual framework (Figure 11 below) for GS strategy and structure which provides guidelines to some of the most relevant challenges organizations face with their models and the targets they need to meet (Gia FU, 2017).

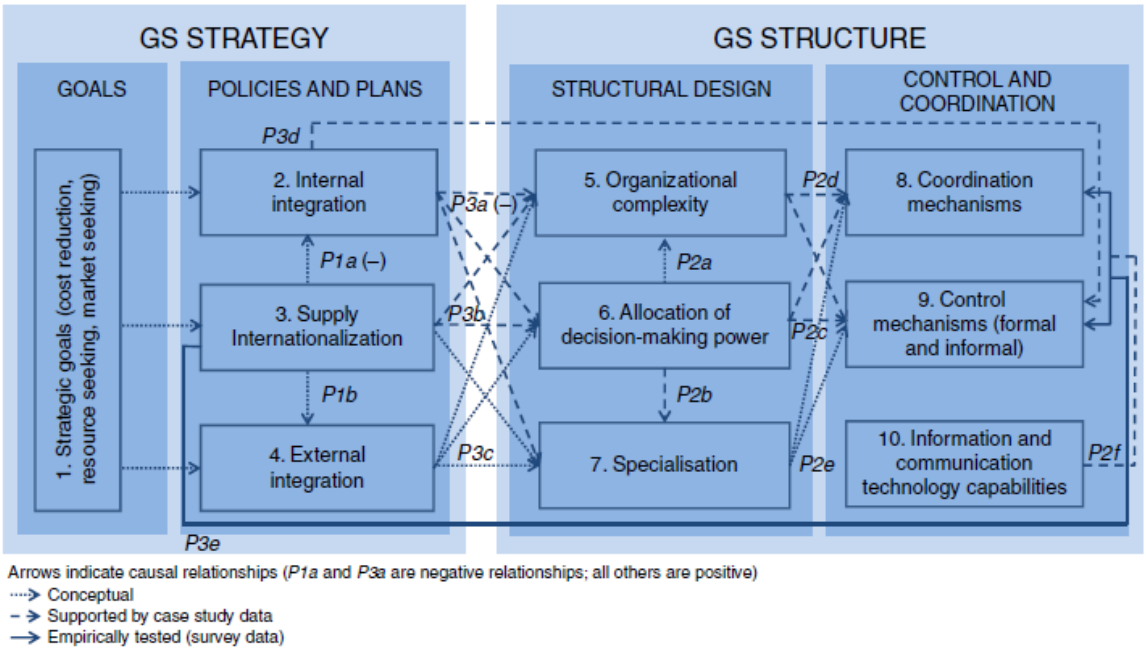

FIGURE 11
Fu Jia et al, Conceptual Framework for GS Strategy and Structure

Even though the model doesn't integrate a performance dimension and empirical work is still needed to refine and validate it, in terms of practical implications it provides procurement and supply managers with a detailed framework for designing strategy and structure and promotes a fit between the two, an important factor for achieving to achieve GS and/or global purchasing performance.

4.5 Conceptual Operating Model of Trade Departments

TD's should innovate constantly, execute methodically and plan strategically to address business and regulatory changes in different countries/regions of the world. This requires flexibility to be able to adapt to change.

4.5.1 Extrapolation of different Operating Models and identification of missing elements

Table 4 below summarizes the most important elements of the proposed OMs of departments with similar features.

We can observe there are strong similarities between most models proposed in the sense that the main elements captured reflect organization structures, processes, technology and data. All these elements are organized around the defined strategy of the department which should be aligned to the overall organization's strategy.

As we can see below, the only author that does not consider strategy as a critical element to the construction of an OM is Ross on IT OMs (Ross, 2005). Ross argues that the OM concept requires that management put a stake in the ground and declare which business processes will distinguish a company from its competitors. However, I believe that to come to this conclusion on business processes, the organization invariably needs first to define their business model, strategy and value proposition. We will therefore reflect strategy as a key foundation element in the COM.

LEGAL	TAX		INTERNAL AUDIT		IT		PROCUREMENT/PURCHASING	
DELOITTE	EY	PWC	CHARTERED INSTITUTE INTERNAL AUDITORS	KEISERS	THOROGOOD	ROSS	KPMG	FU JIA
Vision and strategy: what is the vision, the strategy and direction for change?	Strategy	Strategy	Risks and strategic objectives, financial circumstances	Compliance strategy; Clear definition of risk types	Business Strategy & IT Strategy		Strategy; global organisation and culture	Strategy
				Risk Assessment & Reporting Standards/Policies				
Organisational structure: (Centralised or decentralised)			Structure			**Business process standardisation and business process integration**: 1-Coordination, 2-Unification, 3-Diversification, 4-Replication	Organisational structure: (Centralised or decentralised)	Organisational Complexity & Coordination mechanisms
People: what are the roles and responsibilities of staff and team?	People					**Parameters**: customers, suppliers and transactions, business units and functions, business processes, data and IT	People: what are the roles and responsibilities of staff and team?	Supply Interntionalisation Allocation of Decision Making Power Specialisation
Sourcing: (activities in-house or sourced externally)	Sourcing	Productivity		Independent Testing (external audit)			Sourcing: (activities in-house or sourced externally)	Internal Integration / External Integration
Process Taxonomy: which services should legal provide and how? what processes and controls are required?	Processes	Processes	Processes	Processes & Controls	IT service management: demand and supply managment, project management, support services, IT performance and controls	**Measures**: Level of sharing, overlapping, uniqueness, automony, centralisation, standardization	Processes	Control Mechanisms
				Monitoring				
Data & Technology: what data and technology is required to optimise what legal does?	Data & Technology; Data security	Data & Technology; Data security					tecnhology methodology is vital	Information & Communication: Technology and capabilities

TABLE 4
Extrapolation of elements of different Operating Models

4.5.2 CONCEPTUAL OPERATING MODEL

It is valuable for the TD's COM to encompass at least the core elements already identified by several authors for departments with similar functions and extrapolated in table 4. The content of these elements needs to be developed on the foundation of the organization's business model, strategy and value proposition which directly influence the OM's design.

The organization' strategy drives the TD's departments strategy which should translate into the main principles stating what the TD needs to deliver. These principles need to address a range of organizational barriers and risks: functional silos, incomplete enterprise data, etc…Once the main principles are defined the TD needs to determine the direction and strength of their relationship.

Across industries and countries all multinational companies share some similar features.

The first common feature of multinationals is their global presence and the fact that they have to deal with a multitude of complex requirements and risks.

Other common features are items like regulatory and environmental constraints such that even if the risk appetite of the organization is big they would still want or need to comply with the minimum requirements and if possible optimize the duty rates applicable to their flows.

Cost constraints can also be added to the list as another common feature. In all organizations, profitability is always important and costs are always a driver (short term need for investments, minimization of costs long term opportunity).

These features are important to design a conceptual OM that can be used 'universally' by multinationals.

However, we should resist the temptation of making the model too generic and just based on common features as it would fail to address its main objective. It is therefore key to take into account the variables of each organization to make the model really efficient. This is what Bains call in their design model passing the 'dog food' test. In the design principles for a robust OM the authors give the example of a CEO concern during the design phase of an OM while evaluating different OM options: 'Can any of them equally apply to a dog food company as to us'? While this question may seem comical, it crystallizes the real issue of generic models.

This means that the OM shouldn't be a fixed but rather an adjustable tool which is also capable of evolving to take into account organization profile differences and developments in circumstances.

The variables connected to the organization profile can relate to business model and strategies (eg B2B or B2C sales, type of goods or services sold, customer segments, complex supply chains) organization patterns (eg size, countries where the organization operates, legal structure etc), industry sectors and last but certainly not the least the organization's culture.

When building their OM, TD's will need to take into account the organization structure and culture. For example in a functional structure the OM may reflect a management system which will be highly centralized whereas in a matrix structure this management system may be organized at business unit level. Similarly, the OM will be different in organizations with a very strong hierarchical pattern versus a more decentralized pattern (typical of organizations where competition overrides collaboration).

In the TD's value proposition some organizations in specific industries may need to focus more on areas of expertise such as export controls and classification (examples: chemical industry, electronics, weaponry etc) others on customs valuation (eg number of intercompany transactions; manufacturing and distribution model; transfer pricing adjustments etc); whereas others may need to focus more on special customs regimes and negotiation with local governments in remote countries. The examples are numerous.

The variables connected to developing circumstances can be linked to internal or external factors and relate to the business model itself, strategies (eg mergers and acquisitions, joint ventures, embargos, etc.) but also to political or economic factors.

As conditions and strategies change OM's also need to change. In designing the OM of TD's one should ensure that change is managed in an orderly way. Influencing factors such dynamic business boundaries, globalization and related factors (changes in business locations, changes in FTA's, embargos) technology (digitization, big data analytics and robotic process automation), new ways of working 'agile', are only some of the few aspects that could drive the OM to change.

The TD's value proposition in this case will also need to adapt to respond to these changes and so will the OM. To minimize some of these risks, the OM will draw on principles of normative and contingency theories.

The choice of change management theory based on experience gained from the result of change processes in organizations can also support the complexity of the environment to meet different demands (for example with tasks which can be planned in advance and others which arise unexpectedly and must be managed accordingly).

Drawing on the available literature and theories, and the extrapolation of models of departments with similar features I conceptualize a high-level OM as illustrated by Figure 12 - Conceptual Operating Model of Trade Departments (COM).

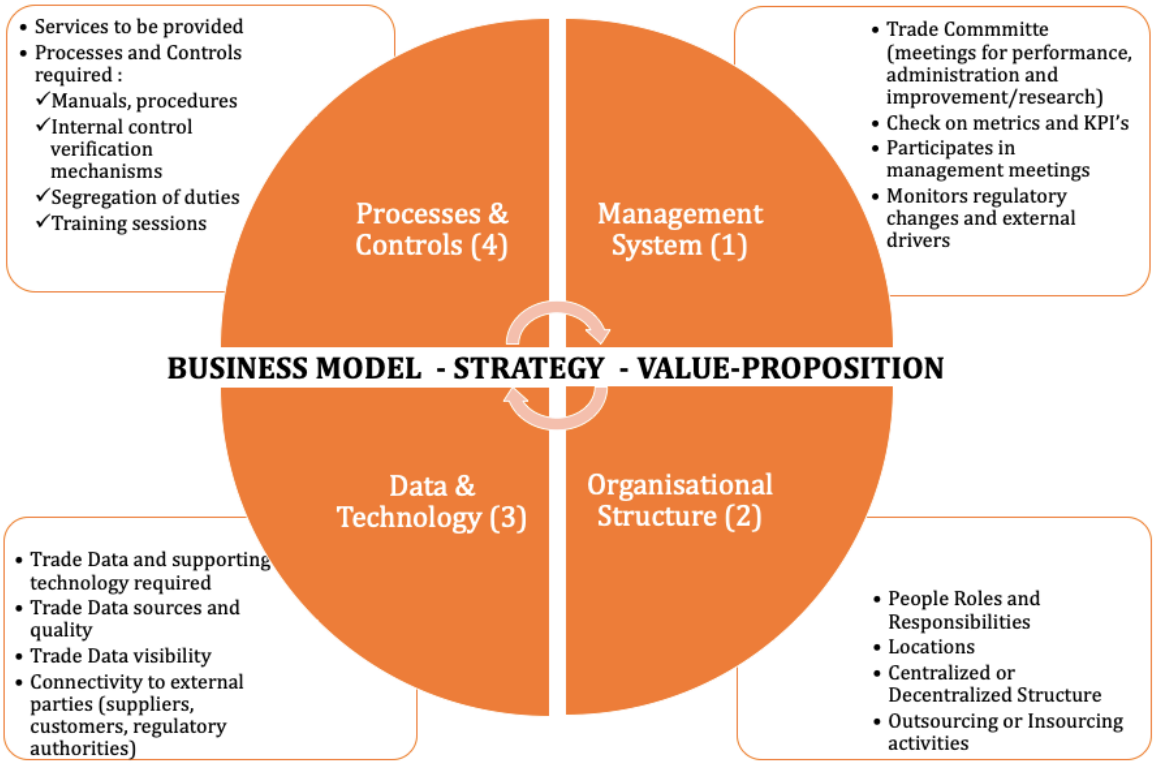

FIGURE 12
Conceptual Operating Model of Trade Departments

Once the strategy and the value proposition of the TD are defined (please refer to figure 13 in Appendix 2 for an illustration of a TD's value proposition) a management group (it can be a Trade Committee - TC) should assess the required changes and the ways of performing them. The TC will also monitor the progress of the change and the defined KPI's. Given the number of interactions of the TD, stakeholders from other departments need to be associated to the transition.

Tasks management, Risk Mitigation and Identification of Opportunities through people, processes and technology should be at the very center of the design of the OM and implemented through a system of checks and balances built into it.

There are 4 core elements aligned to the business model, strategy and value proposition.

Management System, Organizational Structure, Data & Technology and Processes & Controls.

4.5.2.1 Management System

The 1st core element of the model is the management system used to run the TD.

At the heart of this system representatives of the TD should form a Trade Committee (TC) that concludes the operating strategy of the TD in line with the business model and the organization' strategy.

The TC makes the strategic trade decisions and delivers the governance framework to support strategy ensuring that the capabilities and talent (people, infrastructure, technology, processes) are in the right places to execute it.

As we have seen previously, one of the challenges TD's face is the need for agility required by the environment. The right Operating Model should make it easier to make important decisions quickly and effectively.

A review of the literature on strategic decision making, performed by Kim and Mauborgne (Kim and Mauborgne, 1995) suggests three factors that contribute to any organization's ability to make fast strategic decisions. The first is that organization members participating in the decision-making process have a shared coding scheme and language system and are sufficiently alike in the background, perspective and goal orientation. Cognitive similarity reduces the number of times information must be cycled among decision participants to reach a common interpretation and to decide on the best course of action to be taken.

The selection of the members of the TC and the organization in general should take this factor into account as it has important implications in the way the organization will cope with the challenging environment. Similarly, the selection and location of the TC resources should reflect the organization business model and structure. For example, in matrix structures the TC may have members from different business units whereas in functional structures it can be a centralized body.

The second factor is the scope and extensiveness of information used. The argument here is that comprehensiveness slows the strategic decision process. Accordingly, obtaining information input from few sources, considering few alternatives and conducting limited analysis leads to rapid decision making.

When designing the organizational structure the TC's should ensure that the information flow it receives from the organization is sufficiently structured, robust and reliable but also concise enough to enable speedier decisions.

The last factor is the degree to which conflict characterizes the decision process. There is consensus in academic literature that conflict interrupts the flow of the decision-making process extending the time. We have already described in section 2 how the issue of conflicts in the organization can affect the TD's efficiency and agility. This factor suggests that a one-way flow of information in decision making could help speedier decisions. The extent to which this should be reflected should take into account the organization profile such as size, ways of working, culture etc.

It is essential that the TC participates in meetings with business management, research & innovation departments, IT and to assess how changes can affect its strategy and OM. As noted in the challenges faced by TD's, very often strategic plans fail to incorporate risks and opportunities associated with global trade activity and there is no process to analyze strategies to expand to new markets, new product development or IT infrastructure and investment changes. The participation in management meetings should provide for a platform where all these issues are flagged and considered from a Trade perspective.

The TC implements a common trade program instead of each entity using their own approach thereby keeping a common way of working whilst taking into account specific country requirements (regulatory compliance etc)

They should also address resource planning with regular review of functional business needs: what resources are need, how many and where to ensure flexibility.

The TC also ensures ways of Working (high-performance and behaviors that support strategy). The TC should leverage on other organizational aspects to counterbalance weaknesses so for example by ensure people from different expertise fields or countries move across to other to leverage options and explore different approaches. They also set targets and measure performance to ensure strategy is achieved. For this to happen, they need to implement metrics; KPI's such as Compliance and Efficiency Indicators (FTA's utilized, duty saves, compliance costs, etc.). On risk mitigation, on top of the embedded controls on ways of working, TC should organize independent testing and maybe leverage on internal audit capabilities to perform testing.

In addition to being in charge of vendor selection, sufficiently detailed reports need to be provided to the TC to control outsourced activities such as the ones performed by the SSC, external advisors, brokers and IT service providers. Knowledge and vendor management will create synergies in terms of knowledge sharing and cost controls.

The TC performs a continuous political, economic and regulatory watch on the environment to ensure sufficient planning and effective implementation when the organization needs to adapt to new circumstances.

An additional challenge also highlighted by Bateman in her article on OM's (Bateman, 2019) is making the design real and keeping it relevant. Ongoing maintenance is an element that is often neglected and the TC should take responsibility for monitoring the relevance of the OM and the required changes. This can be achieved through the various tasks listed above and tables such as the OEE consulting.

4.5.2.2 Organizational Structure

The area of focus of this core element is how the department is structured and located.

People: Roles and Responsibilities

Eliott Jacques in 'The requisite organization' Methodology 1989 argues that the capability to do the work successfully is different 'the work at each level of a properly designed organization is different'.

As much as the complexity of the work is different (as measured by time span of discretion – how far out into the future it takes) so is the capability to do the work (mental processing capability of an individual to successfully work at that level of complexity).

It is key that TD prioritize successful placements and ensure during the recruitment process that the capability of the resources hired is matched to the requirements and complexity of the roles. The approach should be a robust assessment of what is the nature and complexity of the work, the culture required to perform it and then decide who is going to do the work. This robust assessment should take into account the necessary changes described previously to make sure the organization has enough talent to cope with new requirements.

As the Trade function evolves, it is possible that the need for new profiles within the department is identified (technology needs, different business models, new services and goods can be the triggers).

This assessment should also take into account the role and responsibilities of customs and trade experts and the potential liabilities connected to it since the applicable rules remain a very complex realm which also need to be combined with other provisions per country.

It is therefore important to bring clarity to the responsibility of the role, especially in the relationship with Regulatory bodies. The formal division of responsibilities needs to be real.

Not only OM should focus on nature of the people profile and skills but also identify what energizes them and implement the adequate processes to educate and train them well. Everything should push in favor of a culture of responsibility and performance. In this sense, it may be useful for some of the roles of TD's to move away from a structure based on very specific expertise and create a more 'flexible/fungible' resource pool which would be adjust better to certain needs of the organization (for example a resource pool able to deal with FTA's and all the contractual aspects of the agreements with external parties without the need to involve the legal department, a resource pool capable of advising supply chain implications on customs, VAT and transfer pricing without the need to involve other tax experts). This requires a team with a different mind-set but can be a motivating factor for a varied career path.

Finally, when going through the definition of roles and responsibilities the TD will be in a position to identify not only the tasks that belong and remain with the department but also assess whether they should be centralized, decentralized, insourced or outsourced.

Centralized versus Decentralized Structure

By combining simultaneously different organizational principles, Jay Galbraith defends hybrid structures capable of combining centralized functions focusing on specific areas and specific decentralized functions focusing on others.

As mentioned previously, this aspect is particularly important in the Trade area. The centralized functions are needed in relation to an important controls' environment relating to the heavy regulatory aspect and at the same time local resources are needed to deal with more operational aspects. As noted in the Tomson Reuters (2017) survey whilst it is possible to centralize governance functions, there is a point at which centralization becomes impractical. 'Localized knowledge and relationships remain essential elements of a diligent approach to trade, and centralization should not blunt the value that local experts can bring to the process.'

Where the people performing the TD tasks will sit depends on the strategy and structure of the organization but there are a number of concepts that we should apply to TD of multinationals independently of these two aspects.

Applying the concept of 'local rationality' developed by Cyert and March (1963) to the multinational, researchers have long since established that the orientations, perceptions and priorities of head offices and subsidiaries vary due to their different exposures to the environment and strategic responsibilities (Perlmutter 1969, Prahalad 1975, Doz 1980).

While head office managers are driven by a global logic, local subsidiary managers are knowledgeable of and seek to adapt to the idiosyncrasies of their local market. 'One implication of this is that to achieve the dual ends of global efficiency and local responsiveness, the decision making process should encourage active dialogue and debate between both parties (Kim and Mauborgne, 2019).

The need to develop a multidimensional perspective in the minds of individual participants in the strategic decision process was also put forward by Barlett and Ghosnal (1987b, 1990). The authors argue that to balance the objectives of global efficiency and global responsiveness, multinationals must break down the unidimensional perspectives of both head office and subsidiaries managers and create 'a matrix in the minds of managers'; that is 'managerial mindset that understands the need for multiple capabilities, that is able to view problems from both local and global perspectives'.

In TD operating globally is it key to have dedicated Trade resources with local market knowledge to obtain responsiveness and agility but also to secure a robust compliance process. Very often Trade tasks left in the hands of people handling logistics and supply chain fail to meet necessary requirements for lack of time and awareness.

However, one should be careful with risks linked to fragmentation. A structure dedicated to local business units – eg customs team dedicated to operational level daily tasks for each plant - may weaken over time, drift apart in their ways of working and methodology and don't cross-fertilise. The advantage of this model is that it allows teams to be more focused on specific tasks.

In multinational companies local failure is ubiquitous because you can't really have centralized control. The system has to learn from decentralized experimentation, trial error and probabilistic experimentation. Two qualities emerge of decentralized networks: 1- no single point of failure and 2 - easier to scale. Research conducted proves that mechanisms comparable to for example hubs with connecting flights; brains, internets, can provoke inter-random failure which can be controlled so that isolated cases can be knocked out and the system keeps working. One of the disadvantages of this approach is that if critical hubs are knocked out errors start cascading through the system. However, there are mechanisms to compensate this complexity, reinforce success through for example a clear hierarchy. The OM of TD's should inspire themselves from this approach.

We can also draw on the procurement OM discussed above and the cutting-edge center-led structures that can enjoy the benefits of standardization and control that comes with centralization while enjoying directly the benefits of stakeholders proximity and responsiveness whilst ensuring compliance.

Culture and its impact on the design of the OM should also be taken into account. Hatch (Hatch, 2013) suggests that on the one hand if one focuses exclusively on the organization culture one may miss the tensions and contradictions suffered by members of the organization by reason of the subcultures. In contrast, if one only focuses on cultural aspects at the level of the environment or society and does not consider culture at the level of the organization it may miss what differentiates that organization from others.

A typical example of these tensions and contradictions in the trade environment can be the relationship of customs departments with external brokers or local authorities handling processes in certain regions of the globe. In this relationship, subcultures operating within national cultures can create tensions with an organization level culture of strict and rigorous compliance practice. The OM needs to address this type of challenges through the organizational structure (recruitment process and selection of outsourced activities are key), data & technology (to embed controls in financial reporting for example) as well as processes & controls (training programs, segregation of duties etc.).

Insourcing versus Outsourcing

One can consider the 6 dimensions that collectively underpin the three typologies of modernist theories: technical complexity, routineness of work, standardization of inputs and outputs, standardization of transformation process, task variability, and task analyzability.

This approach can help TD's identify the tasks that can be potentially outsourced or insourced.

TD's have been very slow in moving tasks to SSC's and this is rather unfortunate as it could allow TD's to focus on more technically complex advisory work. Not only TD's could leverage on the shift of tasks which are routine and enable standardization of inputs and outputs but they are also missing on opportunities to train resources with capabilities to deal with more sophisticated tasks and build centers of excellence.

As for outsourcing to external suppliers, it important to define not only the tasks but also the kind of relationship the organization needs wants to have with the supplier: collaborative;

transactional and the kind of service it expects the supplier to deliver: innovative, operational efficiency, other?

This will help define the supplier profiles and maybe locations depending on what the organization is trying to achieve.

Whether some services are performed in a SSC or outsourced to a third party, it is important to ensure that there are no gaps in accountability and authority. The core element of the OM 'Management Systems' will deal with this aspect.

4.5.2.3 Data & Technology

As highlighted in previous sections of this thesis, nowadays TD's face huge demands from their organization and external parties but they do not have the tools or disruptive technologies that would enable them to meet these requirements or expectations. This is a really powerful mismatch since on the one hand the scale and complexity of the problems is significant and the people who are supposed to cope with it don't have the means of doing so and on the other hand we have organizations ignoring or postponing the investment needs.

The likelihood that this combination will produce crisis and spectacular failures is high.

As mentioned previously, we can only expect Trade relevant data to increase and businesses to get more systems rather than less hence the need to take a different approach.

IT infrastructure and modern technology allows data to be analyzed at micro and macro level to identify compliance obligations leading to a better understanding of compliance risks, efficiency optimization and maximum oversight and opportunities (EY, 2020). The tracking feature to be adopted in the technology chosen should also enable effective tracking across different people and locations (including outsourced activities like SSC or external advisors) and a sufficient level of transparency to understand who is performing the tasks, when and whether they are being effectively performed.

In addition, technology should help free employees from mundane and repetitive tasks and contribute to their engagement and satisfaction.

Whilst building their OM, TD's need to assess what information systems the people need to help them (services to be performed, risks to be mitigated, management reports, processes and controls required); the important applications and information that are needed to support the work and define the IT—blue print with applications, owners and users.

This can turn into a competitive advantage as it can allows management (TC's and other strategic departments) to make informed decisions with confidence.

At the micro level, technology should give the organization the possibility to map flows on a granular level enabling a detailed visualization of flows, access to interactive maps & charts that give visibility down to the individual item level and the possibility for scenario plan testing.

At the macro level, technology can deliver details on the pattern of the manufacturing locations and strategic partners, relevant regulatory requirements (country customs rules, applicable FTA's, embargos, etc.), reports with duty payments, broker payments, resources pattern, etc.

Because of the compliance aspect and the need to respond to business needs, the OM needs to have a strong foundation to leverage on business initiatives without abandoning the flexibility. Professor Ross, in her article on IT OMs, emphasizes the paradox of 'standardization leads to flexibility' and claims that research shows that building a foundation of standardized technology, data and processes shows a company has more business agility and responds to new market opportunities faster.

4.5.2.4 Processes & Controls

The OM should address the need for robust processes required to tackle the needs of import regulations, export regulations as well as other supply chain implications. It also needs to address the payment of duties, taxes, and fees, from an import perspective, along with the effective management of export controls, which are essential to the financial, operational, and reputational well-being of companies engaged in the movement of goods and intangibles across borders (Deloitte, 2017).

Whilst designing the OM, TD's should take the opportunity of breaking down previously ill-defined processes and controls and try to optimize them to achieve high results.

An approach could be to break down processes by areas of expertise, identify the requirements, how the tasks should be performed and by whom and design the processes and controls accordingly.

In addition, as TD's heavily rely on informal organization given the sometimes the lack of formalized structures when designing the OM, one should get a good understanding how people connect beyond the lines and boxes such as conversations and collaborations, teams and other working units, organizational influence by performing a diagnosis of Who participates? What information? What processes? When? and try to formalize as much as possible these processes.

One of the most important aspects that was recognized while doing the inventory of challenges faced by TD's was the potential liability that the resources within the department or the organization can face. This can be the result from the lack of regulations explicitly excluding liability for each specific circumstance (eg country, facts, role of the person, specific circumstances at stake etc) and/or the lack of harmonization of the regulations.

Risk minimization can be addressed with organizational policies, instructions, manual regulating customs operations, provisions of employment contracts and even job descriptions which allow for a description of responsibilities and actions of the Company's employees.

This documentation, along with the implementation of certain controls usually supports the organizations facing such charges.

The following approach should be taken into account when assessing the implementation of this core element of the model:

- Implementation of procedures/manuals regulating customs operations and providing clear rules on how customs transactions need to be managed,
- Adoption an internal control mechanism which enables verification as to whether the procedures in force are followed in practice and identification of problems with bribery and corruption,
- Enforce the principle of segregation of duties: separate the supervision role from the execution role,
- Implementation of training sessions for awareness and reinforcement of expertise

Another layer of control could be achieved through hiring a second adviser that advises in a different way – red teams – so that there is no cheat when it comes to certain decisions. This can range from decisions on outsourcing tasks, IT investments but also detailed items such as classification decisions and specific audit challenges.

Finally, the OM will need processes with embedded measurements to meet the services required and targets set.

A well-trained workforce is essential for TD's to achieve their targets. The TC oversees the training process, determine training needs and priorities and provide the funds for training.

In view of the complexity of the regulations and their constant change, new data analysis techniques and technology breakthroughs, TC's should provide for a regular training budget.

When doing this, it is important that the needs and priorities are analysed in a critical fashion and evaluated in terms of how they fit into the priorities and strategy of the organization.

During the design phase I tried to adjust the model to meet TD's features but the principles of the model still remain quite generic. When transposing the model to their organization, TD's should avoid a generic approach and make it as specific as possible and avoid statements like 'leverage capabilities', 'streamline processes' etc.

Table 6 in Appendix 3 summarizes the challenges faced by TD's and how they will be addressed by the COM.

4.5.3 TESTING THE ARTIFACT

The 5 organizations interviewed were all multinationals operating in different regions of the globe ranging from $5b to $20b turnover, with headquarters in Europe, Asia and the US.

All organizations have adopted hybrid organization structures (ie functional and matrix) except one that adopted a transnational structure.

The people interviewed were heads of Trade Departments or managers with significant decision power and extensive Trade and Customs experience.

The test involved organizations in different sectors such as chemical industry, industry automation, fast moving consumer goods, technology power and automation as well as health industry.

The interviews were structured in two sections.

The first section specifically focused on the sampled organizations current OM, their elements and their efficiency.

The participants were first asked to confirm whether there was a clear definition of the OM of the department.

They were then asked to explain the current OM's alignment with their organization' strategy as well as their capability to deliver this strategy efficiently. Finally, the organizations were asked to describe the improvements to their current OM.

The second section focused on the COM.

The sampled organizations were asked to confirm the relevance of an OM to deliver on strategy. They were then presented with the COM and were asked to list implementation barriers to the COM and attribute a hierarchy to the COM elements.

Finally, they were asked to identify any missing features and potential improvements to the COM.

SECTION 1 findings

The findings for the whole sample show that a clear definition of an OM does matter and that most organizations tested have at least attempted to define it.

The result of the interviews confirms that due to recent factors (it can be business model changes, regulatory changes, pressure due to external drivers, etc) most organizations have attempted to define their OM.

The findings also confirm that most organizations performed recent changes to align the OM to the organization strategy in order to deliver more efficiently. However, two organizations

confirms that the OM strategy is still exclusively aligned to the logistics and the legal department strategy.

However, a number of improvements still need to be performed in order to get to the right OM.

Regarding the elements of their current OM's the participants have confirmed that some elements are missing or 'diluted' in the OM of other departments such as logistics or legal.

On the replies to the question regarding improvements of their current OM, 4 participants highlighted the need for an improvement of the management system element. In particular, these organizations underlined the lack of support and awareness of top management as well as the lack of monitoring of regulatory changes and external drivers. The participants also confirmed the need for improvements on the organizational structure. They put forward the issue of resources and inadequate capability as one of the most challenging areas.

In addition, two of the participants stressed the need for improvements of the Processes & Controls element, more specifically, the need to improve the internal audit tasks.

SECTION 2 findings

The participants were asked to assess the propose COM and confirm whether it covers the essential elements to deliver efficiently on strategy. All the participants confirmed that it does despite the differences in terms of business model and strategy of each organization.

The participants were also asked to assess whether the COM had any missing features. Three participants confirmed that there were no missing features. One of the participants suggests to add a markets & product portfolio of the organization element whereas the other participant suggested to add a separate 'block' (ie element) on communication and training.

On the hierarchical importance attribution of the different elements of the COM, the answers reflect that most participants attribute management systems and organizational structures the highest level of importance with the exception of one participant who attributed the highest importance to the Data & Technology elements.

Regarding the barriers that could prevent the implementation of the COM, the organizations tested have systematically put forward the lack of management support and the issue of unavailable resources or resources with inadequate capabilities. One of the other barriers mentioned during the interview was the department's position/reporting line within the organization. Internal resistance to change and required 'buy-in' from multiple stakeholders were also presented as additional barriers.

During the interviews, specific focus was given to the lack of support and awareness of the organization's management as an improvement to the current OM but also to the implementation of a future OM.

Most organizations also confirm to be suffering from a lack of resources or resources with the wrong capability.

We can therefore conclude that the result of the interviews does not show any significant facts in terms of the improvements needed for current OMs of TD's, the importance of the OM to deliver efficiently on the organization's strategy. These results also confirm that the presented COM covers the essential elements.

However, we need to address the two suggestions put forward by two participants regarding the COM missing features.

The first participant suggests to add a markets & product portfolio to the elements of the COM.

Firstly, market & product portfolio are already addressed as an essential element of the organization strategy, business model and value-added. The OM is built on these foundations.

Secondly, markets & product portfolio should be specifically addressed on a more detailed level of the COM through the 4 elements presented and the way they are implemented by the organization.

Below I state some examples as to the way this should be addressed:

- Under Management and Systems through monitoring of regulatory changes of specific markets and products,
- Under Organization structures through the hiring of resources with expertise on specific markets and products,
- Under Data and Technology through the implementation of the adequate technology to address obligations related to markets and products,
- Under Processes & Controls through the implementation of processes and controls to address specific markets & products.

The second participant recommends the addition of a separate block on communication and training. The reason put forward for this recommendation is that by structurally embedding the communication into the organization, you reduce the dependency on individuals.

The way the communication and trainings are done (what, to whom, when, how) do not determine what the elements should be. Instead, this needs to be determined within the element at a more detailed level when developing the implementation of the COM. There is a communication and training aspect within all elements.

It therefore seems irrelevant to put communication and training as a separate element of the COM.

4.6 CONCLUSION

This chapter aimed to provide a structured approach in the development of a COM which will support TDs of multinational organizations to deliver more efficiently on strategy. We specifically focus on the elements of different OM and extrapolate those illustrated in OM of other departments with similar features. Despite the fact that there is a lack of academic literature on the subject of OMs in general, we can conclude that the published OMs have a number of similar elements. To design an aligned model, these elements need to be built on the foundation of the organization's business model, strategy and value proposition. They also need to be adapted at a more detailed level to specific circumstances. This can be done through the development of a more detailed OM focusing on the specific design decisions. The COM developed in this chapter provides for 4 essential elements Management Systems, Organizational Structure, Data & Technology as well as Processes & Controls which were tested with 5 organizations. The result of the test of the artifact allow us to conclude that the OM is an essential element to deliver efficiently on the organization strategy and that the presented COM covers the essential elements for TD's.

5 CONCLUSION

5.1.1 CONCLUSION RESEARCH QUESTIONS

With the **first sub-question** of this thesis I have first tried to identify what principles of organization theory and design TD's can take advantage of to build an OM. In the second chapter, l list some of the benefits and constraints of different theories as well as the design core concepts that are critical to build and OM. We can conclude that none of the theories and design specifically applies to OM of TD's but rather a mix of different theories and design concepts which need to be carefully organized to strike a good balance. This design is influenced by the organization structure, systems, culture and different configurations.

On the answer to the **second sub-question** in the third chapter, I have also provided for an overview of the difficulties/challenges TD's are experiencing and the key factors limiting their ability to deliver efficiently. Firstly, we can conclude that there is a need to conduct fundamental research on how TD's of multinational functions work in order to fully assess their situation. There are very little academic sources that we could refer to and the articles utilized didn't provide for extensive support of the reality of TD's.
We can also conclude that the difficulties and challenges encountered are numerous and sometimes very difficult to tackle. However, the areas highlighted represent urgent priorities and confirm the relevance of the OM to address some of these issues.

Finally, **on the third sub-question** of what OM elements should be taken into account when designing the TD's OM, the systematic literature review also allows us to draw the conclusion that there is a lack of academic sources studying OM and OM of departments with similar features. Further, none of the available OM specifically applies to TD's. Some of the academic publications partially address the problem in domains such as for example the value-added and strategy of TD's and in departments with similar features such as purchasing and information technology. However, even then, the result of the research shows that Operating Models have not been the subject of enough research.

The significant literature gap is partly related to the lack of interest from the academic community but mostly certainly also related to the difficulty in deriving the best responses. In the meantime, consulting firms are trying to fill the gap with specific solutions such as Global Trade Management tools which do not fully address the problem.

In this chapter, I have also presented a COM with a very simple illustration of the main elements that should be considered to deliver efficiently an organizations' strategy. This model should give structure to TD's in designing their OM.
The COM distinguishes 4 elements: Management Systems, Organizational Structure, Data & Technology as well as Processes & Controls and how they should be built on the foundations of the organization's business model, strategy and value proposition.
The feedback from the organizations tested confirms that an OM model is essential to deliver an organization strategy efficiently.

Operations management scholars (such as Lee) have pointed out that radical changes in some parts of an organization business model, strategy and tactics can have tremendous performance implications. Similarly, getting the Operating Model wrong can prevent an organization from delivering efficiently on its strategy.

Given the context, differences in business models, strategies, value propositions, culture and external factors relating to regulatory and environmental considerations we can draw the **overall conclusion** that the exercise of designing and OM for TD's is closer to an art than a science. However, it is very important for having clarity on the path to designing the OM to make the inventory of the challenges and provide a definition of the main concepts that can support this design. This provides clarity on the choices and it is a necessary condition for progress in the field.

The focus on the design of a COM has afforded a closer look on the challenges TD's face and an analysis of the OM available for departments with similar features. From a practitioners' standpoint this OM can help guide the search for an ideal model to help deliver more efficiently the organization strategy.

5.1.2 LIMITATIONS AND CONTRIBUTIONS

It is important to consider several limitations of this study.
The first limitation relates to the nature of some of the literature utilized. Since the academic literature gap is very significant, part of the analysis is based on non-academic literature published by recognized law and advisory firms. Some of the information is also based on personal knowledge through the experience I acquired during my professional career.

The second limitation is the approach utilized to test the artifact. The test was limited to qualitative research and the number of the organization's interviewed was only 5. Given the aim of this thesis and the far-reaching information requirements it imposes, it was deemed not feasible to assess more than the literature available and test the artifact on a limited number of participants through qualitative research. Hence, the results and the conclusion reported must be interpreted with these limitations in mind.

Another limitation is that the COM fails to show the coordination mechanisms, the informal relationships and the distributions of power that can take place outside the formal hierarchy of an organization. However, this is a limitation of conceptual models in general.

Notwithstanding the above limitations and the needs for refinement, this thesis makes two contributions.

The first one, I would argue, to the existing body of academic literature with respect to OM of TD's. This is the first study to expressly examine OM of TD's. To date, research has been limited to addressing challenges and changes faced by TD's.

This thesis also briefly sheds the light on the literature gap of OM of departments with similar features to TD's.

The second contribution is that it proposes a COM that organizations can test and apply. For all organizations need an OM to deliver efficiently on strategy. By introducing this concept to TD's to effectively deliver on strategy this thesis creates an abstraction of principles to facilitate the diffusion of a common 'ground' and elements that can be used across different organizations.

However, further effort should be addressed towards understanding how the COM can be adjusted to different organizations and their TD's. In particular, the artifact should be extensively tested through other methodologies to derive specific hypothesis and their consequences.

5.1.3 FUTURE RESEARCH

Reframing customs literature to test OMs of TD's in multinational companies would be a valuable contribution to theory and practice.
Further, the COM proposed in this thesis needs to be tested extensively with a rigorous statistical approach, meaning that the sample needs to be statistically relevant in terms of number and different organization profiles.
Drawing on the results of the statistically relevant samples, one could come up with hypothesis and design, propose and test examples of adjusted COM's for organizations with different features such as business model, organizational structure and culture. This would provide empirical support to understand the ideal fit of the COM to different organizations.
Another research direction should also be in understanding the reasons why there is a lack of awareness and support from top management within organizations to enable TD's to deliver efficiently on strategy.

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APPENDIX 1

MODELS	BENEFITS	CHALLENGES			
		Governance	Engagement	Quality and Consistency	Independence and Objectivity
CENTRALISED IN-HOUSE	- allows building and retention of knowledge -sharing of information and understanding of business - flexibility and quick responses	balancing priorities and expectations with limited resources	work overload may compromise engagement	getting new ideas due to high staff retention	in-house function may be too close to management to be truly independent
DISTRIBUTED IN-HOUSE	- considered part of the organisation working towards shared priorities - advice can be provided formal and informal basis - flexibility and responsiveness while keeping costs down	increased demand for assurance creates challenge to provide internal auditors in the right locations with the right skills at the right time	close working relationship with risk management	large and geographically spread missing face to face contact can create quality issues, avoid duplication and supervision and checking between auditors and quality assurance sections	Ensure internal auditors who provide consultancy do not at a later stage audit the systems and procedures they gave advice on
SHARED SERVICES	- able to offer more experience, knowledge and skills than operating own small internal audit teams - synergies between internal audit plans - reduces the need for co-sourcing arrangements - minimises the impact of breaks in service caused by staff turnover and sickness - enables increased commitment and opportunities to training	vulnerability to one of the partners withdrawing support or significantly varying needs - vulnerable to resource constraints caused by staff mobility or additional work, competing priorities in terms of timing and resourcing of audit	wider and more time-consuming programme of stakeholder consultation; need to regularly explain the role responsabilities and positioning	size of team limiting factor in terms of career progression and scope for developing specialist skills	risk of retention of independence and objectivity if reporting lines change and direct line to SSC director
CONSORTIUM ARRANGEMENTS	- sector knowledge - share best practices - development vaulable audit skills - flexibility, responsiveness, continuity				challenge to maintain forthright opinions when audit findings may not always be welcome
CO-SOURCING AGREEMENTS WITH EXTERNAL PROVIDERS	- able to contract or expand quite easily to reflect fluctuations in demand - possibility to tap into expertise - encourages auditors to make new connections and provide a wider context - encourages a culture of challenge		managers buy-in may not be sustainable during financial constraint periods		independence and objectivity may be comprised when using employees from the business to deliver core audit plan
OUTSOURCING	- flexibility to chose from several options (fully, co-sourced or specialist audit skills in certain areas) - sharing of best practices - accumulated wide sector knowledge	striking the right balance between service obtained and cost/not necessarily cost competitive	every customer wants to be top priority		commercial contract for internal audit can hinder forthright views from the internal auditor in fear future contracts may be lost

TABLE 5
Summary of benefits and challenges different internal audit models

APPENDIX 2

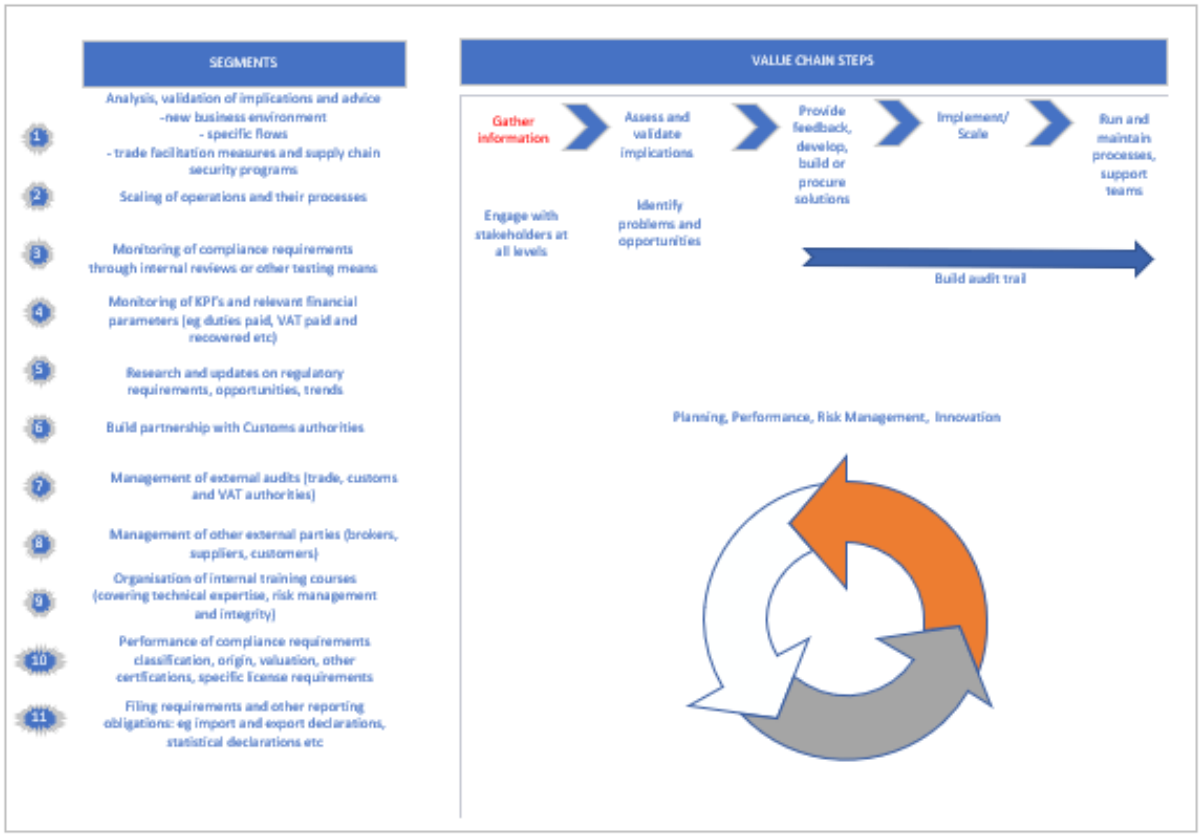

FIGURE 13
Trade Department's Value Proposition

APPENDIX 3

	Challenges	COM Elements	COM Element label	Explanations
TD's strategy and organisation structure	lack of formalisation of mission and strategy definition			formalisation of these concepts is required to define OM
	lack of clarity as to the roles, responsibility and potential liability	1+2+3+4	Management system+Organisational structure+Data and Technology +Processes & Controls	potential liability depends on departments scope of responsibility and varies per region and country (addressed through clear definition of roles and responsbilities, processes and controls, technology and training programs: management system through TC defines framework and monitors)
	lack of resources (understaffed)	2+3+4	Organisational structure+Data and Technology +Processes & Controls	clear definition of roles and location, considerations on centralisation/decentralisation and insourcing/outsourcing brings first layer of efficiency, automating basic tasks which do not necessarily require highly skilled employees; improving processes and controls
	lack of education/ training	1+2+4	Management system+Organisational structure	recruitment process defined according to needs in terms of capability, training programs defined by TC's and synergies through decentralisation of tasks performed at local level, training programs
	lack of talent to face current and future environment (eg education and IT profile)	1+2	Management system+Organisational structure	this is a key part of the organizational structure
	wrong positioning within the organization (reporting lines; budget pressures even for compliance)	1+2	Management system+Organisational structure	this is a key part of the organizational structure
	lack of awareness of regulatory changes	1+2	Management system+Organisational structure	TC's specifically has a monitoring role and central visibility; also fed by local resources
	lack of awareness to changes in business environment (flows, development of new products)	1+2	Management system+Organisational structure	TC's participate in management meetings
	lack of flexibility/agility	1+2+3+4	Management system+Organisational structure+Data and Technology +Processes & Controls	the whole OM environment is built around these requirements with a focus on decentralised experimentation
	Challenges	**COM Elements**	**COM Element label**	**Explanations**
External parties	Supplier/customer expectations (managing FTA's, export controls requirements, supply chain flexibility)	1+2+3+4	Management system+Organisational structure+Data and Technology +Processes & Controls	TC's participate on contractual arrangements with suppliers and customers, decisions on technology investements, directs implementation processes and controls to meet requirements
	Broker management (eg no means to audit external parties for quality checks)	1+2+3+4	Organisational structure+Data and Technology +Processes & Controls	Vendor selection and management handled by TC along with required resources, technology and controls
	Interaction with regulatory authorities: - transparency - ways of communicating data - workload (timing and quality of data)	2+3+4	Management System+Organisational structure+Data and Technology +Processes & Controls	TC define point of contact for regulatory authorities, participate decision on technology investment
Internal parties	lack of awareness within organization of TD's role	1+2	Management system+Organisational structure	participation in management meetings, training programs
	lack of adherence to inhouse training programs from other departments (eg because they don't see the relevance)	1+2	Management system+Organisational structure	OM defined according to culture of organization, participation in management meetings, training programs
	interpersonal conflict between different departments and TD due to different and conflicting targets	1+2	Management system+Organisational structure	OM defined according to culture of organization, participation in management meetings, training programs
	Challenges	**COM Elements**	**COM Element label**	**Explanations**
Tools and Data	system limitations (includes lack of centralized oversight and visibility to critical data)	1+3	Data and Technology	TC's gets right champions aligned for adoption of right technology, right technology should provide adequate oversight to data
	legacy systems, master data inaccuracies, efficiency	2+3+4	Organisational structure+Data and Technology +Processes & Controls	once right technology decision taken, right resoutces and adequatet processes should compensate for issues with legacy systems, innacuracies and lack of efficiency
	missing data and analysis to formalise value-added of technology investments relating to Trade	2+3+4	Organisational structure+Data and Technology +Processes & Controls	TC's prepares efficiency and compliance indicators on basis of available data (extrapolation) to highlight value-added of tech invetsments

TABLE 6
Challenges faced by TD's and how they are addressed by the COM