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Self-Interest in a Global Enterprise

Joel Bigley

Jabs School of Business, California Baptist University, Riverside, USA

Email address:
jbigley@calbaptist.edu

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Abstract: Effective leadership talent tends to seek autonomous opportunities to achieve positive financial results within a profit-seeking organization. This study shows that a guided autonomy, driven by self-interest and augmented by resource complementarity in a network based production environment, accelerates the process of achieving profitable growth. Entities external to the organization can contribute to a balanced self-interest. For example, the corporate center can contribute to continuous growth by temporarily incubating growth opportunities, by sharing related resources between businesses, and by helping business units to select initiatives based on the long-term strategic plan for the firm. Even so, the corporate center must guide the organization balancing constraints and autonomy to leverage the growth benefits from self-interest. In this article a mixed method was used to collect data from an organization that successfully achieved growth during a significant transformational event. By paying attention to self-interest, leadership can leverage a powerful force in organizations. Conversely, neglecting it can result in failure to meet objectives.

Keywords: Autonomy, Capital, Lateral Integrative Mechanisms, Financial Algorithm, Corporate Guidance

1. Introduction

Business unit self-interest describes the autonomy of financially accountable organizational units. Humans are self-organizing, autonomous systems that sustain and generate their own activities based on rational assumptions [1, 2]. Self-interest is therefore a primary engine for synergy realization. Without self-interest there is minimal motivation. A deeper theme of guided and balanced self-interest aligns these principles contributing to a culture of entrepreneurship and healthy growth. A productive and rewarded self-interest drives behaviors that minimize collaborative inertia. Additionally, self-interest encourages business units to seek out growth opportunities that are based on synergies to optimize profitability. A business unit in a multi-national enterprise (MNE) is given both autonomy and self-interest when it is given the opportunity to identify growth synergy opportunities, when it can define their value-based attributes, when it can determine deployment timelines and the scope of coverage, and when it can determine the task rollout sequence as represented in an operational deployment plan. Outcomes of exploiting self-interest include profitability in the form of social impact, organizational efficacy, team efficacy, and personal leadership efficacy [3].

Managers in coevolving business units value business systems, frequent data focused workout sessions, defined boundaries and roles, shared intuition, exogenous metrics about market shifting, and reward systems that favor self-interest through collaboration [4]. In this context, competition between business units is seen as a driver for innovation such as, for example, alternative technologies, business models, distribution channels, and the time and cost it would take for competitors to develop or acquire similar capabilities across related products and services [5]. This also suggests that the decision to form cross-unit linkages should be decentralized to the business units and that collaboration should be guided by informed self-interest [4].

Business level incentives then drive efficient synergy realization. Coevolution as a meta-concept is also theoretically immature and is too abstract to be consistently meaningful in realizing growth synergies, and so must be situationally applied. Furthermore, alignment around mega-strategies helps with focus and self-interest management. Critical aspects of a collaborative organization, such as coevolution, patching, resource redeployment, and knowledge flow can be aided by a management information system (MIS) that informs decision making. The resulting decentralized collaboration includes cooperative design elements, like incentives and strong integration mechanisms, with competitive design elements, including strong local financial controls. The result is a productive, rather than destructive, self-interest that balances stability and flexibility. Previous research pertaining to growth from related diversification recommends that organizational designs include cooperative constructs [6]. These studies stress the need to limit business unit self-interest through centralized decision making at the corporate center.

The results of this study within an existing MNE suggest a different view. The data suggests that organizational design can stimulate, rather than restrict, business unit self-interest. Design liberates entrepreneurialism embedded in existing employees. The multidimensional organizational structure (MOS) is based on a design of decentralized collaboration that balances stability and flexibility for continuous and efficient growth synergy realization. Furthermore, the study reveals integrative mechanisms that further enhanced the capability of the MOS to influence profitability.

The goodwill of great employees will only go so far and then self-interest, or even survival, becomes the primary motivator in decision making. Finance facilitates the need for self-interest-based motivation by assuring the business unit that discovered the growth opportunity is rewarded for doing so. The self-interest of MOS leaders is achieved through the reward system that corporate puts in place. The outcomes from established objectives need to be connected meaningfully to the reward system. This helps with the alignment of MOS leaders and encourages them to contribute to the production networks' capability to exploit growth opportunities.

The continuous realization of growth synergies is also associated with an organizational design that promotes decentralized collaboration; healthy, unit, self-interest; and includes a culture of honesty and mutual support [7]. Selective focus and decentralized collaboration combine into a model of guided and balanced self-interest, which is promoted by corporate leaders that establish effective motivational incentives. This is then a reward system that promotes the guided evolution of the organization through growth synergy initiatives. In sum, self-interest is a driver in the MOS that should not be overlooked. It is reflected in autonomy and the location culture. It is influenced by policy constraints and administrative burden. When focused, it is a driver for desirable outcomes.

2. Constraints

With this liberation comes the need for controls and guidance to keep business units from pursuing low quality opportunities that limit autonomy and destroy corporate value (dis-synergies) through the wasteful consumption of resources. Furthermore, guidance is needed such that self-interest does not create destructive self-interest behaviors that breed distrust, opportunism, and destroy collaborative interest on the part of stakeholders. Guidance and balance are provided by the business unit leadership and by corporate oversight. This guidance needs to breed trust while exerting social controls that mitigate opportunistic behavior. The corporate role includes the provision of an overall strategic framework, lateral integrative mechanisms (LIM's), and a cultural context. The overall strategic framework reflects the preferred future state of the firm, or a vision, that provides strategic intent [3]. Synergistic growth realization needs to be guided to follow a strategic theme linked to corporate advantage. The strategic scope and targets given to business units provide focus and accountability within the appropriate product and market arenas in which a business unit actively participates [8].

Corporate also provides an administrative context to the realization of strategic targets. Financial controls, combined with rewards for performance achievement, stimulate productive self-interest [4] [9]. The promotion of constructive behaviors helps to motivate businesses to overcome collaborative inertia. It also helps business leaders to not abuse their autonomy through the pursuit of dis-synergies. Additionally, an administrative context stimulates and enables efficient collaboration mechanisms across businesses and between the business unit and the corporate entity. These LIM's help to establish trust, impose social control, motivate productive behaviors, reduce transaction costs, promote focus, align participants, promote nimbleness, preserve knowledge, and help to build up experience in the relevant domain. Appropriate operational norms reduce the need for coordination controls and reduce the occurrence of conflict. Shared information systems increase information-processing capacity and the ability for stakeholders to control operational complexities.

With self-interest comes growth-oriented behavior from entrepreneurial employees. This is necessary for the realization of growth synergies because behavior increases action velocity by reducing or eliminating inertial forces. The implementation of accurate revenue recognition feedback can be provided to stakeholders. The mechanisms in reward systems can then remunerate self-interest in accordance with the systems design, all of which is expected. Promoting self-interest has a number of aspects to be considered including (a) autonomy, (b) strategy, (c) administration, (d) culture, (e) outcomes, and (f) the revenue recognition algorithm. As an output of this study, the author will discuss each of these individually.

3. Autonomy

Social cognition from real-life experiences is based on autonomy and sense-making [10, 11]. This self-directed autonomy, guided by a focused and balanced self-interest, produces profitability through MOS leaders. Expanding this to the organization, the overriding driver of self-interest is business unit autonomy. It drives the discovery of synergistic opportunity to reduce cost and leverage complementarity for the realization of growth. Off-load sites have the decision making autonomy to accept the work they are being offered, and they are accountable for the reliability of their services in terms of quality and the timeliness of delivery.

"They have full control with [the] supervision of [line of business] LOB leads." (SI2)

The decisions around the off-loading process and its execution also require autonomy to preserve self-interest. The absence of self-interest may result in 'win-lose' negotiations. These arrangements usually lead to poor performance from the loser.

"The structure will incentivize them to off-load more and more to off-load hubs as their allocated cost will be constant ... so they can maximize the utilization." (SI4)

The implementation of the policy requires leadership and coordination. It also requires MOS leaders in the network to link with support functions, like finance for example. The reporting of network-based production costs to finance needs to be accurate, timely, and conform to the revenue recognition policy. A streamlined process speeds deployment and reduces adoption life-cycles due to the absence of issues that are typically driven by needless complexity.

"Because the admin work is very low, we can implement [the policy] fast and easy. The approach is simple and straightforward." (SI9)

The sequence of tasks needed to deploy the policy directly relate to timely success. The MOS leads determined the sequence for deployment. The LOB leads met with finance to agree on the reporting approach. Following feedback, the policy was deployed. This is one of many examples of collaborative creation and deployment of a policy in an MOS.

4. Administration

The optimal policy will have a minimized administrative component. Administrative burdens create inertia and incur non-value added costs. The willingness for business unit leaders is typically stalled when the administrative component is revealed. This may not be understood until after the program has started. Halting an initiative after momentum has been created hurts the overall culture of change. The results of the administrative component are inputs to the company's financial data. A streamlined methodology will encourage accuracy and timeliness with regard to financial reporting.

5. Culture

The cultural context of self-interest includes, but is not limited to, the relevance of reward systems deployed and social mechanisms that promote a collaborative culture. The intent of these social controls is to encourage motivation and commitment to growth synergy realization. The cultural context helps to create a corporate identity, establish trust, align initiative intent, enforce constructive norms, and focus a work ethic around continuous corporate advantage. The corporate model of guided and constructive self-interest may be viewed as an ecological system that is continuously evolving [3]. Corporate is continuously fine-tuning the strategic framework in accordance with the dynamic marketplace. Corporate may also incubate new growth strategies and enable the launch of new product and service life-cycles. This may include the assignment of ownership of identified business opportunities. A temporary financial reprieve may assist with business unit risk aversion.

Changing routines can sometimes be difficult. The group that is to experience the change may look for any opportunity to reverse the course of an initiative. One significant issue, in this case, is the confidence level in the off-load site to perform the tasks reliably. Self-interest encourages location leaders to make needed changes quickly that support the network-based production environment.

"Since we're moving costs around ... revenue is recognized at local facilities, [as a result] this [implementation] was not a problem." (SI18)

Change includes the sequence of activities to complete the deployment effectively. An example would be to accomplish the training requirement to assure the sending business unit that the off-load is at parity with regard to expertise. This would apply as well to equipment, tools, and infrastructure as examples.

"This new structure rewarded early adopters, as it split the cost between all facilities based on revenue and early adopters were not penalized by additional hours." (SI19)

The organizational network must function as a system that adapts to the demands of clients regardless of the size. It has to accomplish all tasks with excellence. To accomplish this the organization must be agile in light of a continuously dynamic environment. Organizational agility relates to the rate at which the organization can stretch and how extensive the stretching can be without compromising performance. A dynamic marketplace may require significant stretching and compression.

"Now local offices work more and more with off-load offices without concern of extra hours [being] charged to them." (SI21)

Additionally, local sites need to be able to handle exceptions and escalate when there are issues that could compromise performance.

"The structure [and policy] encouraged local sites to go through LOB leads for any non-standard situation." (SI23)

6. Outcomes

Ultimately, it is the financial outcome that validates that profitability has been positively influenced. The outcome of the policy was increased profitability. Mature storefronts were able to reduce overall labor costs by more than 20% normalized to volume.

"Based on the [pro-forma] methodology... showing the potential benefits of the storefront strategy [storefront location 1] shows annual savings of [amount] and [storefront location 2] shows annual savings of [amount]." (SI33)

As each business unit leader owns their profit and loss schedule (P&L) and is accountable for meeting targets. The success of this self-interest based financial policy was predicted.

"The outcome should be [an] increase in utilizing off-load hubs, reduce the off-loads to higher cost facilities, and cleaner financials." (SI25)

The design of the organization in the network must be aligned to the implementation. The MOS is ideally suited for this.

"It will be perfectly aligned since it will encourage communication with LOB leads and communication with off-load hubs." (SI26)

The collaborative dimensions assure that all dimensions are involved in and benefit from the deployment of the policy. The location experienced financial success in their P&L. Each LOB P&L realized success from the lower cost configuration and the higher volume experienced from aggressive local sales unconstrained by capacity concerns. Alignment and execution were encouraged through communication and monitoring.

"They [are] all ... on board with this…we will escalate as soon as we see deviation from the plan." (SI28)

The financial benefit was achieved on the same volume with the same complexity configuration, even though the storefronts were not fully mature. The network-based production was measurably augmented by the self-interest policy.

7. Financial Algorithm

The product leaders assembled and created rules around revenue recognition to preserve the self-interest of the business units. The rule included an algorithm with regard to the allocation of off-load costs, regardless of where it was done, that allocated the whole cost of off-load to the business units based on the revenue that they achieved by LOB.

"All revenues will be realized at local facilities initiating the off-load and costs will be allocated based on the rules below:" (SI34)

"Corresponding LOB cost will be split between all LOB facilities based on revenue share of the product. Revenue will be used as a proxy for effort." (SI35)

"Off-load to non-off-load hubs – the off-load should be discussed/coordinated on job by job basis with LOB leaders, for the most cost effective allocation and one-off discussion on revenue/cost allocation." (SI66)

As a result, if a business unit did not off-load, they received their allocation regardless. If they aggressively off-loaded because they acquired revenue beyond their capacity and they reduced costs aggressively, they achieved a super-additive cost benefit as they may have exploited off-load capacity more than other business units. The algorithm created a healthy competition for purposes of self-interest advantage. The algorithm energized behaviors that encouraged the realization of growth synergy.

8. Corporate Guidance

The validity of corporate guidance and oversight in the realization of growth synergies is present in the literature. Like any organizational construct, corporate leaders can promote dis-synergies; however, corporate leaders are in a position to promote efficient structures, processes, and systems [12-15]. In large firms with a diversified portfolio, corporate managers may lack the detailed knowledge of local markets and the resources needed to implement strategies [4, 9]. In contrast, business unit leaders may not have the medium or long term corporate perspective [16, 4]. An evolutionary corporate management approach of guided and balanced self-interest combines local knowledge and capability with corporate oversight and a long-term perspective to create both stability and flexibility. This collaborative balance also helps the MNE to navigate the complexities involved through a decentralized design [17, 18, 3]. The themes that emerged from the data regarding the role of self-interests in the creation of profitable growth are summarized in Figure 1 below.

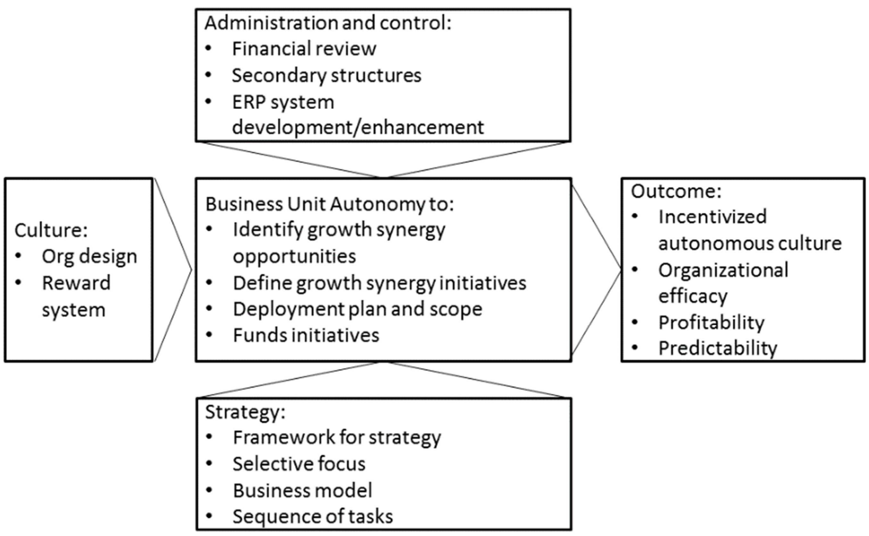

Figure 1. *Exploiting self-interest for profitability. This figure illustrates how strategy, culture, and administration and control contribute to desirable outcomes.*

In summary, the data suggests that self-interest is a critical driver for the realization of synergistic growth. Self-interest has a number of critical aspects. At the core of self-interest is business unit autonomy. Autonomy is driven by strategy, an incented culture, and a minimized administrative burden. The outcome of a focused and aligned autonomy is profitability, predictability, and an effective entrepreneurial culture. The following principles summarize the key findings of this study:

Principle 1 (collaborative relationship): A collaborative corporate relationship with an MOS encourages guided and balanced self-interest that is positively related to growth synergy realization.

Principle 2 (selected involvement): The selective involvement of the corporate center can promote autonomous growth in locally addressable markets.

Principle 3 (service center): The corporate center is a service center that can contribute to continuous growth by temporarily incubating growth opportunities, by sharing related resources between businesses, and by helping business units to select initiatives based on the long term strategic plan for the firm.

Principle 4 (guided autonomy): A guided autonomy driven by self-interest and augmented by resource complementarity in a network-based production environment accelerates the process of achieving profitable growth.

Principle 5 (task sequence): The discovery of an appropriate task list and its execution sequence are directly related to the timing of desirable outcome realization.

Principle 6 (administrative burden): A business unit self-interest policy is negatively influenced, and may be compromised by, the administration needed to manage it.

Principle 7 (collaborative intent): An effective self-interest policy is a LIM that encourages a collaborative social environment necessary for profitable growth realization.

Principle 8 (allocation algorithm): An effective revenue recognition algorithm will accommodate critical concerns from stakeholders and drive behaviors that lead to profitable growth.

9. Conclusion

Self-interest is a critical driver for profitability. If self-interest is ignored then synergy-driven profitability is at risk. Furthermore, in this scenario, the impact of dis-synergies may be exaggerated. On the other hand, if a collaborative relationship exists between corporate and the MOS, a guided and balanced self-interest may positively relate to autonomous growth synergy realization in local addressable markets. A guided autonomy, driven by self-interest and augmented by resource complementarity in a network based production environment, accelerates the process of achieving profitable growth. The corporate center can enhance the ability of the MOS to succeed.

There are several ways that the corporate center can assist with local growth. The corporate center could be seen as a service center that contributes to continuous growth by temporarily incubating growth opportunities, by sharing related resources between businesses, and by helping business units select initiatives based on the long-term strategic plan for the firm. These discovered opportunities and initiatives are oriented into an appropriate task list. Its execution sequence is directly related to the timing of desirable outcome realization. An effective self-interest policy is a mechanism that encourages a collaborative, cross-business, social environment that is necessary for profitable growth realization. An aspect of the self-interest policy relates to how revenue is recognized by the business units. In this case, an effective revenue-recognition algorithm will accommodate critical concerns from stakeholders and drive behaviors that lead to profitable growth. Specifically, an effective, revenue-recognition algorithm will accommodate critical concerns from stakeholders and drive behaviors that lead to profitable growth. Such an algorithm will produce pricing power.

The self-interest of stakeholders influences pricing power synergy. Some of this relates to cultural attributes present in an MOS environment and how this relates to capacity management. For example, a guided autonomy driven by self-interest and augmented by resource complementarity in a network-based production environment accelerates the process of achieving profitable growth. An effective self-interest policy is a LIM that encourages a collaborative, social environment necessary for profitable growth realization. The utilization and capability of the production environment informs cost and pricing.

The relationship that the MOS has with the corporate center also influences pricing power. Regarding self-interest, a collaborative corporate relationship with an MOS encourages guided and balanced self-interest that is positively related to growth synergy realization. Generally, collaboration is necessary between members in the production network as well. For collaboration to work, fluid resource sharing without boundaries or penalties attracts the right resources quickly to issues whose resolution contributes to profitability potential. Furthermore, the selective involvement of the corporate center can promote autonomous growth in locally addressable markets. A guided autonomy driven by self-interest and augmented by resource complementarity in a network-based production environment accelerates the process of achieving profitable growth. The achievement of the realization of profitable growth is driven by self-interest from participants. This is human behavior and should be balanced and guided.

Most importantly, scalability is motivated by self-interest. Self-interest must be balanced within the MOS dimensions. In fact, a collaborative corporate relationship with an MOS that encourages a guided and balanced self-interest positively relates to growth synergy realization. In fact, an effective self-interest policy is a LIM that encourages a collaborative social environment necessary for profitable growth realization. The corporate center may function as a ‘third party' to ensure balanced self-interest is achieved between business units that are positively related to growth synergy realization. A guided autonomy driven by self-interest and augmented by resource complementarity in a network-based production environment accelerates the process of achieving profitable growth. However, the administrative burden of the self-interest policy must be very low, as a business unit self-interest policy is negatively influenced and may be compromised by the administration needed to manage the policy.

This study has shown that a guided autonomy, driven by self-interest and augmented by resource complementarity in a network based production environment, accelerates the process of achieving profitable growth. Entities external to the MOS can contribute to a balanced self-interest. For example, the corporate center can contribute to continuous growth by temporarily incubating growth opportunities, by sharing related resources between businesses, and by helping business units to select initiatives based on the long-term strategic plan for the firm.

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Biography

Joel Bigley has worked in executive positions in or with multinational corporations for more than 25 years. He is also a full time professor of Business Administration at the Jabs School of Business and is an adjunct professor in business at other universities.