Saimaa University of Applied Sciences
Business Administration, Lappeenranta
Degree Program in International Business
International Business

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PROCESS MANAGEMENT AND PROCESS DEVELOPMENT IN A CASE COMPANY

Bachelor's Thesis 2010

ABSTRACT
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Process Management and Process Development in a Case Company, 35 pages
Saimaa University of Applied Sciences, Lappeenranta
Degree Program in International Business
Specialization of International Business
Bachelor's Thesis 2010
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This study examines, what process management and process development tools are used in improving internal invoicing processes at the case Company. In addition, the task was to clarify the legal issues concerning e-invoicing in multinational enterprises, operating globally.

The data for the theoretical study was gathered through a literature review of the topic. The main focus of the theoretical data is on process management and process development. The empirical study is based on The Company's internal invoicing process flows and the action step descriptions that examine how the internal invoicing processes can and will be improved. A part of the data for the empirical study was gathered by interviewing The Company's employees. The study is a functional final thesis but it is written by using constructive research method. This is why no actual results are presented in the study.

The results of this study show how The Company improves their internal invoicing processes and how they have used process development methods mentioned in the theoretical study. It also reveals the legal issues concerning invoicing in global context.

Key words: Process management, process development, internal invoicing, e-invoicing

TIIVISTELMÄ
Elina Toiviainen
Process Management and Process Development in a Case Company, 35 sivua
Saimaan Ammattikorkeakoulu, Lappeenranta
Kansainvälisen kaupan koulutusohjelma
Kansainvälisen kaupan suuntautumisohjelma
Opinnäytetyö 2010
Ohjaaja: Kirsi Viskari

Opinnäytetyön tavoitteena oli tutkia, mitä prosessijohtamisen ja prosessien kehittämisen työkaluja casen Yritys käytti parantaessaan sisäisen laskutuksen prosessejaan. Lisäksi tarkoituksena oli selvittää, mitä rajoituksia laki asettaa e-laskutukselle yrityksissä, jotka toimivat globaalissa ympäristössä.

Työn teoria on koottu tutustumalla prosessijohtamiseen ja prosessien kehittämiseen liittyvään aineistoon ja kirjallisuuteen. Empiriaosuus koostuu Yrityksen sisäisen laskutuksen prosessikaavioista sekä analyysistä, joka käsittelee sisäisen laskutuksen ongelmia ja esittää niille ratkaisutapoja. Osa empiriasta on kerätty haastattelemalla Yrityksen työntekijöitä. Työ on tehty käyttäen konstruktivistista tutkimusotetta mutta on muodoltaan toiminnallinen opinnäytetyö. Tämän takia varsinaisia tuloksia ei työssä esitetä.

Työssä käy ilmi, miten Yritys kehitti sisäisen laskutuksen prosessejaan ja millaisia työvaiheita kehityksen aikana käytiin läpi. Teoria on sidottu empiriaan case -esimerkin avulla.

Avainsanat: Prosessijohtaminen, prosessien kehittäminen, sisäinen laskutus, e-laskutus

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1 INTRODUCTION

This study looks into internal invoicing processes and their problems at The Company. Internal invoicing plays an important role in every large company's internal processes and often requires lots of resources. Many companies do not pay enough attention to it. This study describes and analyzes how the invoicing processes have been developed within The Company and integrates this development process to the framework of process management and process development.

The theoretical framework of this study is constructed on the basis of process management, process development and internal invoicing. E-invoicing and legal issues that need to be taken into consideration when doing global business will also be examined. The Company has mills all over the world, and that places some restrictions on the accounting practices and other issues concerning the invoicing.

1.1 Objectives of the Study

This study discusses the role of process development within the process management frame. More specifically, the study aims to examine, how The Company's internal invoicing processes are improved and what means are taken. The main objective of this study is to examine, what means and methods of process management and process development The Company uses in improving its internal invoicing processes.

The main research questions are:

1. What are the invoicing processes in The Company and for what purposes are they used?

2. What are the problems of the internal invoicing processes?

3. What are the action steps taken to improve the internal invoicing processes?

1.2 Methodology

The study will be performed using constructive qualitative research. However, the study does not present any results from The Company's actions and that is why the study is actually a functional final thesis. (Airaksinen & Vilkka 2003, 9). The following figure presents the different elements of constructive approach described by Kasanen et al. in their study.
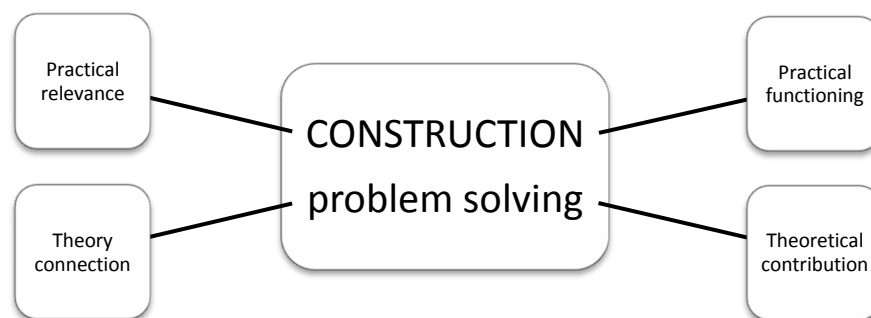

Figure 1.1. Elements of Constructive Research (Kasanen et al. 1993, 246)

The theoretical framework of this study is based on a literature review of management, process management and process development. The literature review consists mainly of published studies as well as other acknowledged publications on the research topic. Practical functioning and practical relevance are examined based on existing empirical studies about The Company's internal invoicing process flows. Some of the examination is also based on the development steps and processes designed according to an analysis of those internal invoicing processes. A part of the evaluation of the internal invoicing

processes is based on semi-structured interviews conducted for four employees at The Company.

1.3 Research Process

Chapter 1 briefly outlines the research problems, introduces the background and the aims of the study. Chapter 2 presents the key concepts of the study. This is done by introducing the conceptual frameworks of process management and process development are presented. This chapter also describes how The Company executes process management and process development. Chapter 3 gives an overall picture of the elements of internal invoicing including legal issues. The description of the working process is introduced in chapters 4, 5 and 6. The process of how I examined the three different internal invoicing processes used by The Company is described in chapter 4. Chapter 5 focuses on how I studied the problems discovered in the internal invoicing processes in The Company and chapter 6 describes what methods I used in examining the action steps taken to improve the processes and bring solutions to the problems. Finally chapter 7 consists of the discussion and conclusions of the study.

2 KEY CONCEPTS

2.1 Process Management

Process management in this study is in a critical role, because when developing their internal invoicing processes, The Company had to carefully plan and conduct the whole development process. To be able to plan and execute the process, management of good quality was definitely needed. The following figure presents the different approaches to process management.
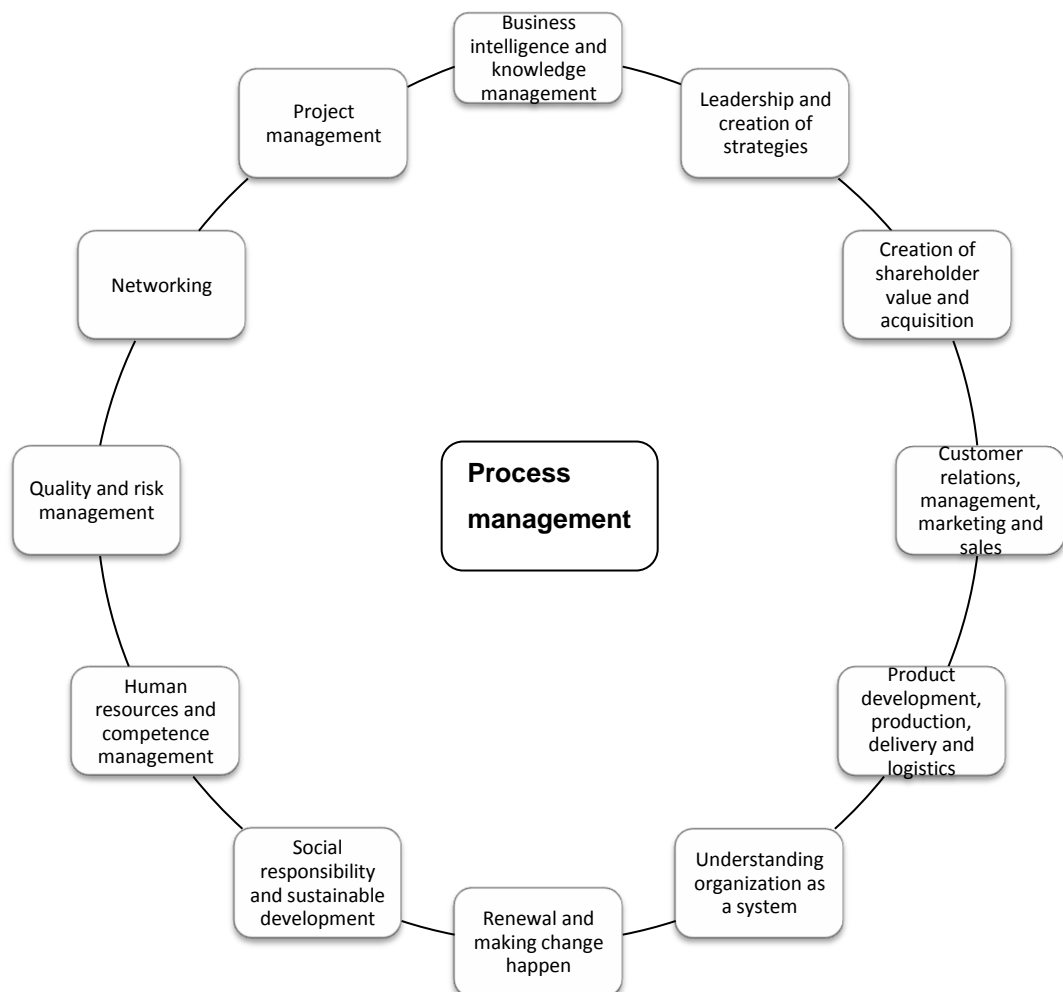

Figure 2.1 Management approaches (Laamanen & Tinnilä 2009, 51)

According to Laamanen, management includes creating visions, clarifying values, setting goals, making plans and decisions, exemplary action, dealing with discrepancies and unwanted actions, inspiring, motivating, and rewarding. He says that managing is changing things, because things that happen without interference do not need to be managed. The matters that need to be managed in an organization are operation systems (working practices, processes, data systems, premises, and products and services), know-how (experience, tacit knowledge, core know-how, technology, expertise, and information) and relationships (interactions, culture, values, teams, networks, and motivation). (Laamanen 2007, 33-34).

McManus describes management as the process of achieving organizational goals by planning, organizing, and controlling organizational resources such as people and cash. He also says that there is an alternative definition of management when talking about project management and according to that definition management is the activity consisting of those tasks that are performed to ensure that the mission of a project is fulfilled by planning and controlling its scope, schedule, costs, resources, and communication. McManus also refers to Fayol's general principles of management:

1. Divide work between employees to be able to develop expertise and increase productivity.
2. Make sure that the person with authority knows his or her right to give orders and entails the responsibility for enforcing with rewarding and penalties. Remember to match authority with equivalent responsibility.
3. Keep discipline for good business and remember that it is dependent on good leadership, well-understood and described agreements and fair penalties.
4. Do not threaten authority, but keep unity of command for clearer understanding.
5. Make clear plans and clarify those plans for everyone involved. This way the objectives are reached in co-ordination.
6. The goals of the business should always be prioritized over group or individual goals.

7. Keep the remuneration methods of personnel fair, encouraging and reasonable.
8. Centralize as much it is possible in terms of organization's characteristics and capabilities.
9. Communicate as much as possible, and not only up and down the organization but also sideways.
10. Organize both people and work so that they fit to their places the best.
11. Treat people equally and with justice.
12. Try to keep personnel happy to keep the expertise in the organization. The turnover of personnel should be avoided.
13. Try to encourage the staff to be as initiative as possible, taking into account the requirements of the authority and discipline.
14. Try to keep up the good spirit within the organization to prevent disagreements.

(McManus 2006, 9-10).

Process management, according to Kiiskinen, Linkoaho and Santala, is organizing processes and managing defined core and backup processes of the organization. Many companies still have a functional organization, which means that operations have been divided into functional responsibilities like production, sales, marketing and administration. Some organizations act as process organizations, and it means that in these kinds of companies, one specific process takes responsibility of the functioning of the whole process for example from receiving the order until delivering the order according to a set schedule. Process management and process development focus on processes that are comprehensive and add value to customers who are either external or internal. These actions also go down to single operations and to the effects these changes have on a personal level. (Kiiskinen & Linkoaho & Santala 2002, 29-30).

Process thinking is closely connected to quality management, continuing improvement and logistics. Along the years, many models of management based on process thinking have evolved. Activity-based management, business process regeneration, managing supply chains and time-based management

are some of these models. Managing information flows is part of managing supply chains and it emphasizes logistics by coordinating the flow of goods and information in the whole value chain from resource to the end customer. The goal of managing information (and goods) flows is to streamline operations throughout the whole value chain by removing unnecessary steps and actions. (Laamanen & Tinnilä 2009, 12).

The purpose of having managers and leaders is to prioritize tasks and achieve changes by executing those tasks. Prioritizing tasks means setting goals and creating strategy. Without clear goals the company performs tasks aimlessly and the whole organization is rudderless. The key to success is strategy, which means that the company has made a plan, choice or a model of what they should do now to succeed in the future and strategies are realized through processes. Especially when it comes to capabilities, such as quality, speed, flexibility and efficiency, the changes in processes are critical in executing the strategy. The challenge of how to produce enough benefits to all interest groups with the unique resources of the company is the challenge that the managers in the organization face. It is also the goal of all strategic actions taken by companies.

In terms of processes, there can be two kind of leadership: process management or process improvement. Only managers can execute process management and this means that the line managers take responsibility of the organization's most important processes, so called key processes. The owner of the process models the process, and relying on his or hers understanding evaluates the functionality and effectiveness of the process and sets the development goals. Process improvement has more to do with changing the ways of action in a process. Better results cannot be achieved if the ways of action within a process do not change. This might require improvements in data collection, knowledge, IT-systems, working methods or relationships. Improvements can also be made without processes but it is not efficient. (Laamanen & Tinnilä 2009, 13-14). As for The Company, the management of processes had more to do with process improvement than process management.

2.2 Process Development

A business process is a number of logically interrelated actions and the needed resources that help in achieving the end results (Laamanen 2007, 19). According to Laamanen and Tinnilä, projects have a clear time-bound goal that needs to be executed with given limited resources. Projects are controlled with project plans and scheduled and they also have different phases from setting and planning to reporting and closing the project. (Laamanen & Tinnilä 2009, 24). It is crucial for process development, that the purpose and the boundaries of the project are defined by the expectations of the management. This is achieved by outlining the critical success factors that best fulfil the objectives of the project. It is also essential to ensure that the management and decision-makers are committed to the project. The management and people taking part in the process must have information about the project that is based on reality and is intelligible. This way the project personnel can genuinely and actively affect the process development. With effective project management, it is possible to interfere with possible problems because the manager already has a clear understanding of what would be the best ways of action in the project. A well-functioning project management gives the opportunity to distinguish the critical functions and subprojects of the whole project, to optimize resources by scheduling conditional projects and subprojects in a right manner, and to minimize the overlapping parts of different projects and subprojects. (Kiiskinen & Linkoaho & Santala 2002, 42-43).

The Company planned a project for improving their internal invoicing processes because at the time, the processes were binding too many resources, especially time, when doing financial statements. The goal of the whole project was to make the processes simpler, easier and clearer to deal with. This means that the process from the beginning (order) to the end (accepting and booking) should be streamlined in order for it to be simpler and more straightforward. An additional aim was to train the people, who are part of the processes, to know how to use all the tools that are given to them.

In process development there are many possible ways of approaching the problems. Planning the process and improving performance, problem solving, and benchmarking are just some examples. All of these approaches have common features: describing the processes, measuring and analyzing the processes, and testing the solutions. Next the study is going to take a closer look into these three process development approaches.

2.2.1 Planning the Process and Improving Performance

Planning the process and improving performance is examining the process according to the stakeholders' needs and it focuses on carefully describing and measuring the process. It also pursues continuous improvement. The improvements are based on the process itself and improving the efficiency of the process. The method of process planning and performance improvement is often used, when doing product improvements and radical improvements in an organization.

The flow of the process planning and performance improvement is as follows:

1. Describing the process by forming a clear view of the process and development targets, and making a contract of development with the process owner.
2. Recognizing the customers and other interest groups, and their needs, expectations and requirements.
3. Measuring and analyzing the process, and building an understanding of how it works and how it performs.
4. Setting goals by understanding the development possibilities, new performance goals and subprojects.
5. Creating the solution and testing it by developing new solutions and making sure, that the new solutions work in real life.
6. Executing the changes by investing and training people.
7. Ensuring stability and evaluating the process by learning and remunerating. In this stage, a decision of how to continue must be made.

The first three steps are about planning the process and the last four steps are about improving performance.

(Laamanen 2007, 210-211).

2.2.2 Benchmarking

Benchmarking is comparing a company's own processes to other companies' processes. By comparing own processes to other companies' processes, firms are able to find out what is the required level of performance. The required level of performance can be related to the features of products or services, delivery times, supply, costs, profitability, rate of growth or employee satisfaction. If an organization lags behind of its competitors in some significant issue, they are in grave danger of losing their market share. (Laamanen 2007, 217).

The purpose of benchmarking is to achieve actual improvements in performance and in the context of the process. This is why it is so important that the reliability of the process is high and the target figures are appropriate. (Karlöf 2002, 97). According to Kiiskinen, Linkoaho and Santala, benchmarking is a good way of analyzing the organization's possibilities of change compared to its competitors. In addition to that, it also shows the weaknesses and problems of the organization compared to other similar organizations, and this way it can enhance change and development, and help in setting challenging targets. (Kiiskinen & Linkoaho & Santala 2002, 49).

Benchmarking can concentrate on a product, a strategy or a process. The comparisons can be made according to its performance or qualities. There are several different ways to do benchmarking, which are:

1. Internal comparison, which is comparing different units and processes within an organization.
2. Comparing competitors is comparing company's own performance, processes or products to competitors' similar ones. Doing benchmarking

this way gives information of what kind of performance is needed on those markets and is really useful when comparing products.

3. Best practice comparison compares company's own performance and processes to best practices and tells what kind of performance is possible to achieve. Many times the best practice that can be used can be found outside company's own field.

4. Group comparison takes place when organizations are trying to find the best practice together in co-operation.

5. Exchanging experiences takes place when organizations form a group, where they can exchange experiences and learn from each other.

2.2.3 Problem Solving

The following figure presented by Laamanen gives a clearer picture of what is meant by a problem solving process (Laamanen 2007, 212).
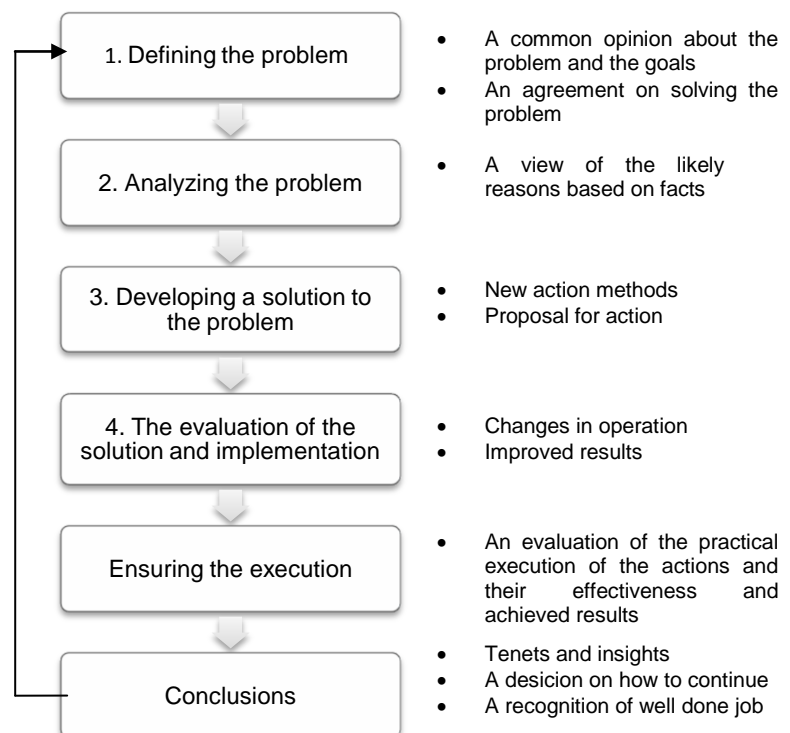

Figure 2.2. Problem solving process

What is relevant to this approach is to recognize the problem that is causing inconvenience or preventing good performance. The starting point for this

development process is removing the problem, and that is believed to encourage better performance. The meaning is not to question the whole process, but it is more about making small improvements. The problem can be connected either to a process or a product. There can be many initiators for this process, for example mistakes, discrepancy in processes or complaints from the employees. (Laamanen 2007, 211-212).

The approach of problem solving seems to be closest to the process The Company executed during their project of improving internal invoicing processes. At the first stage of the problem solving process, The Company built up a team that consisted of experts of their own field. This team consisted mostly of people working in accounting because they are the ones that know what needs to be improved and what might be the best way of doing those improvements. After setting up the team, the next step was to examine and analyze the internal invoicing processes. According to Karlöf, it is important to study the processes in order to find out what needs to be improved in a company's own operations. When the problem points have been discovered, the company can focus on what needs to be changed and developed in order to improve the quality of their operations. (Karlöf 2002, 120).

As Karlöf mentioned earlier, it is important to examine the processes that need to be improved before taking any actual steps to improve them. This is why The Company conducted an analysis of those processes with the aid of a consult company and as Järvenpää, Partanen and Tuomela say, the first step in improving competence is to analyze the current situation and make a vision of the future situation. It is possible to use the assistance of consults, benchmarking or key person evaluations in this process as also mentioned in the previous section. (Järvenpää, Partanen & Tuomela 2001, 326). In other words, in order to work and function more efficiently, The Company recognized the processes that needed to be improved, selected a team of specialists to study the processes and made suggestions about the changes that needed to be done (Laamanen 2007, 202).

When doing the examination of the processes, The Company had to do evaluations and analysis of every part that was involved with internal invoicing.

One way of evaluating a company's current knowledge of financial management and core competency is to, for example, execute competence mapping, and this way, point out the gaps in competence. If there is an existing gap, it means that there is a difference in competences between the current position and the target position. (Järvenpää, Partanen & Tuomela 2001, 321). When examining the processes, the team found that the biggest issues were not only the complexity of the processes themselves but also the lack of knowledge, when doing such basic things like billing requests. The fact that the IT development was sometimes too slow and not up-to-date was also an issue for The Company.

When solving the problems in internal invoicing processes it is important to notice that enough resources are used as efficiently as possible in order for the business to develop as desired. In allocating resources a number of decisions need to be made, and the decisions need to support the chosen strategy. (Karlöf 2002, 190-191). In The Company's case, the most important resources, which are also mentioned in the following chapters, are time and money. The employees are most concerned with time, because there is only a very limited timeframe for this whole project. When it comes to money, the employees are not always so sure, if enough money is used for right targets because in their opinion, the company's decision to outsource SAP coding might be something that should not be outsourced at this stage of the project. Traditionally companies have outsourced separate functions and quite concise services. Only recently the outsourcing of whole action processes has become more common. The Company is using so called selective outsourcing, where only specific operations are contracted out from specialized service providers. The popularity of specialized outsourcing is based on the assumption that outsourcing an operation for someone who does it as a core business and genuinely competes at those markets ensures cost efficiency and quality and brings added value to both parties. (Kiiskinen, Linkoaho & Santala 2002, 78).

After examining and analyzing the problems, The Company had to come up with solutions to them. This means that they had to plan the optimum ways of action, which would enable the execution of the set target states. During this step, The Company also had to put the required action steps into specific terms and that is why they planned the action steps that are looked into later on in this

study. In those action steps, The Company defines the current situation, the target situation, the benefits of reaching the target situation and also the action steps that need to be executed before the target stage is reached. (Kiiskinen & Linkoaho & Santala 2002, 55). When these action steps are executed successfully, these quantum leaps can lead to business advantages and maybe also give a better competitive position by making operations efficient and saving resources (Hamel 2007, 38).

After completing the process, it has to be evaluated and remuneration should be given to those who deserve it. When evaluating the process, one should measure what the organization has learned during the process, were the pre-set goals achieved, and what the benefits of conducting the whole process were. After evaluation some corrective measures can be taken and the process can be perhaps improved even further.

3 INTERNAL INVOICING

In larger organizations internal invoicing is used as a management tool to manage cooperation across departments of business units (Time log: Financial Project Management Glossary). Internal invoicing is needed because The Company conducts intrabusiness, in other words business between units of the same business. This is really common with large corporations, where different business units sell or buy materials, products and services from each other. (Turban & King 2003, 291-292). At The Company, internal invoicing has three different processes that are used.

Internal invoicing in companies like The Company can be both inter-company and intra-company. When talking about inter-company invoicing, it means that a company is doing invoices for another legal entity with a common control i.e. within the same enterprise. The word inter comes from Latin and means between. (Haimes D. Blog: Konsernin sisäinen taloushallinto Oraclella).

Intra-company invoicing on the other hand is invoicing that takes place between two entities within a same legal entity. Intra is a Latin word for within. (Haimes D. Blog: Konsernin sisäinen taloushallinto Oraclella).

Internal invoicing with The Company plays a big part in their business process. The total amount of money that flows through these processes is significant and it has to be noticed that the intra-company invoicing in Finland also plays a great role in this. Because of all the resources that are tied in the internal invoicing processes The Company wanted to examine the invoicing process in and out to discover the points of improvement and to discover how the internal invoicing is handled in different parts of the organization. The main goal was to create a roadmap and plan some action points that would lead to development and decrease the number of issues occurring in internal invoicing. This would in turn decrease the amount of resources used in internal invoicing and also ease the internal matching when doing financial statement.

3.1 E-invoicing

While examining their internal invoicing processes, The Company found some improvement points that are discussed in more detail in the following chapters. However, it is crucial to take a closer look on e-invoicing already in this chapter, which is one of the issues that need to be solved, and to some extent, already has been solved.

E-invoicing and electronic financial administration in general offers great advantages compared to old paper and manual processes. E-invoicing is often faster and more efficient, it reduces the need for space used for archiving, and it also reduces the amount of resources that are needed in financial administration processes. In addition, it is flexible, easy, and it improves quality and reduces mistakes, not to mention that it is also ecological. For large organizations electronic financial administration is basically the only way to handle the growing requirements of control and responsibility. Without these kinds of systems, it would be impossible for a global corporation to handle and control the financial administration of a unit that is on the other side of the world, at least not in real-time. (Lahti & Salminen 2008, 27-28).

E-invoicing is an Internet-based service. This way the seller can send the invoice to the buyer with just one click and the data transmission enables the transfer of the invoice from the seller's billing side to buyer's purchase side. With e-invoicing the buyer can also circulate the invoice for checking and approval using their own system or via e-mail. It is a basis for creative and effective paperless accounting and it aims at connecting companies' invoicing, purchase account processing and payment transaction processing into the Internet and e-mail practice. One benefit of using e-invoicing is that the invoicing information automatically transfers to sellers accounting according to the information included in the invoice and in addition to that, the transaction posts an entry also to the buyers accounting according to the invoice's booking suggestion. The seller according to the basic specification of accounts has made the booking suggestion. Some booking entries might need some more

specification. All in all, e-invoicing should speed up the processing and the approval of the invoices (Tomperi 2009, 138-142).

The e-invoice itself should include all the same items as a paper invoice. The invoices are received into special circulating systems for purchase invoices. With the information included in the invoice, the entering of the invoice can be automated and this way no manual work needs to be done. E-invoices are sent and received with the aid of operators and banks. The data that has to be included in e-invoices is standardized and this is why all additional information is sent as image specification. Included in the image, there can be some specification and reporting information, marketing messages and special data that the customer needs. The image attached is also an achievable document. (Lahti & Salminen 2008, 57-58).

3.2 Elimination Bookings in Financial Statement

With group companies doing their financial statements, some legal issues need to be taken into account. The first problem, that is also referred to later on, is that elimination bookings have to be made, when doing the financial statement. The elimination bookings are done because the parent company or the subsidiaries of The Company have bought or sold something to each other and these business transactions cannot be shown in the financial statement. The elimination bookings do not change the result of the financial period nor change other equity capital items in balance sheet. However, the elimination bookings must be done, because only the turnover that is the result of external sales of the group company can be presented as a group company's turnover. As a conclusion, it can be said, that if both debit entry and credit entry are equal in the group company's profit and loss accounts, the elimination bookings do not have an effect on the result of the financial period or other equity capital items. (Alhola & Koivikko & Räty & Tuominen 1999, 565).

The elimination bookings are done when matching accounts. The purpose of matching is to make sure that all the transactions of the accountable have been

dealt in the bookkeeping and that the unity of documents, bookkeeping entries and the financial statement that is based on those is secured. Matching is the comparison of the transaction sums between, for example, partial bookkeeping (accounts payable or accounts receivable) and general ledger accounting or between two accountables. (Lahti & Salminen 2008, 137). At The Company, the problem has been that when doing the financial statement and matching accounts, the debit and credit entries are not equal, and that causes problems. The matching problem is mainly caused by incorrect bookings.

It needs to be remembered that the objective of a financial statement is to give a true and fair view of the company's financial status, profit and cash flows. This is why all the bookings must be in a right form and done in a right manner to give a clear enough picture of the company's financial status. The users of a financial statement are the investors, staff, lenders, suppliers, other creditors and customers and government officials. The users want to know, what the company's financial status is, and based on that, they want to evaluate the company's future for their own decision making. (Troberg 2003, 30-31).

3.3   Transfer Pricing and Taxation

Finland has accepted the Organisation for Economic Co-Operation and Development's (OECD) Guidelines for Multinational Enterprises (MNEs), which aim at ensuring that companies' actions are in harmony with the politics practiced in every nation, strengthening the trust between companies and the society in their operational environment, contributing to positive atmosphere for foreign investment and enhancing the contribution of multinational enterprises to sustainable development. The OECD has also published Guidelines on Transfer Pricing for Multinational Enterprises and Tax Administrations. (OECD:n toimintaohjeet monikansallisille yrityksille). Almost all of the countries The Company operates in are members of the (OECD list of member countries) nad The Companyj has adapted the OECD guidelines to be used in their business all over the world. There might be some special requirements concerning documentation in different countries, but that has been taken into account and

those requirements are followed when doing business. (Telephone bulletin 14.9.2010).

Because Finland has accepted the OECD Guidelines on Transfer Pricing for MNEs and Tax Administrators, The Company follows the market price principle, which means that the "actual" profit has to be defined separately for each company within the group company to be able to define the profit as it would have been if all the business transactions had taken place between independent parties. This is why companies within the group company must follow market-based prices and other contracts. This kind of principle is called the arm's length principle. (OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations).

The role of MNEs in world trade has increased dramatically over the last 20 years. The growth of MNEs presents increasingly complex taxation issues for both tax administrations and the MNEs themselves since separate country rules for taxation of MNEs cannot be viewed in isolation but must be addressed in a broad international context. These issues arise primarily from the practical difficulty, for both MNEs and tax administrations, of determining the income and expenses of a company or a permanent establishment that is part of an MNE group that should be taken into account within a jurisdiction, particularly where the MNE group's operations are highly integrated. (OECD: Guidelines on Transfer Pricing for Multinational Enterprises and Tax Administrations).

MNEs need to follow laws and administrative requirements differing from county to country and that creates problems for them. These different requirements may create additional costs and cause other problems for MNEs that are not created for companies that operate within a single tax jurisdiction. (OECD: Guidelines on Transfer Pricing for Multinational Enterprises and Tax Administrations).

Every nation is interested in securing the payment of taxes of the business conducted in their country. However, international group companies aim at minimizing international taxes. No nation wants to lose their legal tax revenues and no company wants to be taxed twice. (Järvenpää & Pellinen & Virtanen 2007, 184-185). There are two bases for taxation, residence-based and source-based. In residence-based taxation all incomes of any person, including juridical persons, are included in the tax base and in source-based taxation all income arising in that country's jurisdiction is included in the tax base. In other words, in

source-based taxation, it does not matter if the company has a registered office in that country or not, the county is still collecting taxes of the income arising within its jurisdiction. When it comes to MNEs, these two tax bases are normally used in conjunction and treat each enterprise within the MNE group as a separate entity. This kind of procedure ensures equitable results and minimizes the risk of unrelieved double taxation.

In applying the foregoing principles to the taxation of MNEs, one of the most difficult issues that have arisen is the establishment for tax purposes of appropriate transfer prices. Transfer prices are the prices at which an enterprise transfers physical goods and intangible property or provides services to associated enterprises. Transfer prices are significant for both taxpayers and tax administrations because they determine in large part the income and expenses, and therefore taxable profits, of associated enterprises in different tax jurisdictions. (OECD: Guidelines on Transfer Pricing for Multinational Enterprises and Tax Administrations).

The taxation of a company that belongs to a group company is based on the separate financial statement. This means that the incomes to a company from other companies in the group company are subject to tax, and the expenses paid for other companies in that group are tax-deductible despite the fact, that for the group company, these incomes and expenses are not liquidated. (Alhola et al. 1999, 567).

When a business crosses geographical borders, the seller has to consider for example the following issues with income taxes:

- Which country has the right to levy and collect taxes?
- What is the volume of the income?
- How is the income divided between different nations?

(Aalto et. al 2000, 108).

According to the Finnish Tax Administration the selling of goods within EU borders (intra-community sales) is taxed at the destination country of the goods. Acquiring goods on the other hand is like a reversed image of intra-community sales. If the supply of the goods is tax free in the other EU- country, then the company in the other EU- member country is obliged to pay the value added tax of the goods in its own country. (Verohallinto: Uuden yrittäjän vero-opas, 52).

When doing business within EU borders, the directive 2001/115/EC says that the required indications in invoices have to be the same in every EU-member country and that the member countries cannot make any VAT indications of their own to the invoices. However, it is possible that different member countries have different requirements concerning for example e-invoicing. The information that all invoices need to have according to the Law of Value Added Tax 209 b § is:

1. the issue date of the invoice
2. the consecutive number
3. the seller party's value added tax number
4. the buyer party's value added tax number in case of reversed tax liability or intra-community sales
5. the name and the address of both the seller party and the buyer party
6. the quantity and nature of goods and the scale and nature of services provided
7. the date of delivery of the goods, the date of performance of the services provided or the payment day of the advance payment
8. the basis of taxation by tax base and the unit price without tax, refunds and discounts (if not included in the unit price)
9. tax base
10. the amount of the tax to be paid
11. the ground for being non-taxable or of reverse tax liability
12. information about new transporting equipment
13. a mention of second-hand articles, art-, antique- and collectable items and travel agencies' marginal tax rate procedure
14. a marking of selling a taxable investment gold
15. a reference to a previous invoice in case of amendment.

Items 11-14 are mentioned only when the invoice is for this kind of business, is applying this kind of procedure or when selling these kinds of goods.

Especially the requirements concerning e-invoicing can differ according to a country and because of that, some e-invoices that are accepted in Finland are not accepted in other EU-countries. If the buyer party does not accept the e-

invoice, the seller party might have to send a paper invoice or an e-invoice that is made according to directive 2001/115/EC. (Verohallinto: Laskua koskevat vaatimukset arvonlisäverotuksessa). The EC tries to promote paperless invoicing and, at the same time, tries to standardize the documentation. E-invoicing should be based on a system where the information related to the invoice cannot be changed. Some EC-countries are quite inflexible when it comes to e-invoicing and because of that, a company that is operating globally, has to figure out country-specific regulations. (Aalto et al. 2000, 144).

All EU- member countries have to accept the e-invoices, if their origins have been verified and the consistency of the content guaranteed with electronic signature or with EDI. The member countries can require that the electronic signature is based in an authorized certificate and has been created using a secured signature creating method. When using EDI, the member countries can require the seller party to file a complied invoice in a paper form. The member countries also have the right to set special requirements for e-invoices from countries outside the EC regarding goods and services transported within their own region. (Verohallinto: Laskua koskevat vaatimukset arvonlisäverotuksessa).

4 INTERNAL INVOICING PROCESSES

When studying The Company's internal invoicing processes I had to examine their internal invoicing process flow figures. The process flow figures included explanations of different stages and of the different people and tools involved. The Company uses mainly three different kind of internal invoicing processes. All of those work differently and are meant to be used for different products. What makes these processes so important is that the capital flowing through them is significant.

The internal invoicing process flow figures were quite difficult to read and it was really hard to understand what was really happening in those processes. I drew my own simplified process flow figures to clarify the contents of the flows. The processes also included many terms from SAP and I was not at all familiar with that program. That is why I had to look up the terms that were used and ask many questions from The Company's contact person.

During the summer when I was examining the internal invoicing processes I got help from The Company's contact person and one of The Company's other employee. With them I discussed on the different terms used in the process flow figures and went through all the details so that no mistakes would occur. With their help I was able to understand the processes better and I was also able to avoid all possible mistakes. Without their help it would have taken me much more time to understand the different terms used and the processes as a whole.

The main difficulty in this stage of my final thesis process was that these kinds of process flow figures were not familiar to me. All in all The Company's internal invoicing process flows were so complex that it took me a long time before I actually could start writing anything. The Company conducted an analysis of

their internal invoicing processes and that is why the understanding of the process flows was crucial because the next step was to examine the analysis. Without understanding the internal invoicing process flows it would have been impossible to comprehend the difficulties and problems discovered. The analysis also revealed the solutions that The Company and the consultant company came up after revealing the problems and the understanding of the core processes was needed in this as well. To my advantage I got a lot of assistance and support in all stages of my final thesis process and that somewhat made it easier for me to complete my study.

5 PROBLEMS OF INTERNAL INVOICING PROCESSES

When the consultant company was doing the analysis for The Company about their internal invoicing processes, some problems were discovered. There were more than ten problem points but only seven of them were looked into more carefully. Explicit action steps were planned as solutions for those problem points. The part of the analysis where the problems of internal invoicing processes were revealed described the problems and also the benefits of improving those problem points. That was done in order to explain how the action steps would make the processes more efficient and easier.

In this stage of my final thesis process I conducted interviews for The Company's employees working with internal invoicing matters. The interviews were conducted in order to see what the employees thought were the problem points and what they thought might be the answers to them. It was interesting to notice that the analysis did not reveal all the problem points that the employees thought were very important and created difficulties for them. Almost all the employees revealed same problem points and also presented somewhat similar solutions for them. They also agreed with the difficulties discovered in the analysis and thought that the action steps were planned well but they thought that the problems they presented were maybe a bit overlooked in the analysis. The interview gave a more comprehend picture of the problems in the internal invoicing processes because the employees are the ones who are dealing with those matters daily and they are the ones who have to handle all the difficulties and solve the recurring problems.

The interviews were done as phone interviews for some and face-to-face with some of the employees. The interviews were semi-structured which means that I had planned the questions ahead but during the interviews I had the opportunity to clarify and revise the answers by asking more detailed questions. I also had the opportunity to change the order of the questions if I felt that it was

necessary. The benefit of doing semi-structured interviews instead of structured interviews is that this way the employees had the opportunity to tell their opinions in their own words instead of just choosing their answers from different predetermined alternatives. This way I was able to get a more comprehend picture of their opinions and of the things they considered to be the problem points in The Company's internal invoicing processes.

Doing semi-structured interviews for the first time was not as easy as it might seem. It was hard to plan the questions so that I would not be leading the answers in any specific direction or so that I would not influence the answers with my own opinions. This is why I ended up asking quite straightforward and simple questions and then I just defined the answers by asking more detailed questions. However despite the fact that I had not done such interviews before I think I managed to get good answers and this way I got a better picture of the problem points and the solutions they thought were possible for those issues.

6 THE ACTION STEPS FOR IMPROVEMENT

The Company came up with seven action steps as solutions to the problems mentioned in the previous chapter. The analysis that was done introduced the seven action steps and also described the optimal state that would be achieved after the steps would be taken.

These action steps were much easier to understand than the process flow figures or even the problem points but only because the solutions were based on the process flows and problems. That is why this stage of my final thesis process was maybe the easiest. When going through the action steps for improvement I also took into account the opinions that The Company's employees had when I interviewed them. As I mentioned before the problems and the solutions to the problems the employees pointed out were somewhat different from the ones that were discovered in the analysis. However, it might be possible that some of the problems that the employees noticed could also be solved when the action steps are completed successfully. This can be seen when the effectiveness of the whole improvement process is evaluated. Then the employees themselves can also consider if there has been some improvement in the issues they pointed out.

Because I had never seen a process development plan I had no idea what it would look like. During the phase of examining the action steps for improvement it was interesting to notice that the steps were planned in very detailed manner. There were exact dates and times when certain phases of different steps should be completed and also the names of the persons or teams that were responsible for completing the tasks. Due to these reasons my final thesis process has taught me a lot because not many students have the opportunity to be involved even as an observer in developing company's processes.

7 CONCLUSIONS

This study combines the theoretical framework of process management and process development to the practical relevance and functioning of internal invoicing processes at The Company. The study focuses on discussing the problems I had when going through The Company's internal invoicing processes and the analysis conducted for improving those processes.

The constructive approach integrating and connecting theory to practice enriches the understanding of process management and its application in global business. When getting acquainted with the theoretical knowledge and examining the process management at The Company it was refreshing to connect the practical applications to the theory. It was interesting to notice that these process management tools are used in real life almost in the same way they are presented in literature.

The purpose of improving The Company's internal invoicing processes was to unify the whole process within The Company. This was done in order to save resources and make the processes easier to control. To be able to develop their processes, they conducted an analysis of their internal invoicing processes and came up with seven action steps that would clarify what needs to be done in order to improve the processes. With this study, The Company could integrate their action steps to the current theoretical knowledge and know that the decisions that have been made during the improvement of their internal invoicing processes are based on good theories and have the support of experts in that field.

From this study, The Company also got a compact outlook of the legal issues concerning e-invoicing in global business. In the future, it could be possible for The Company to examine how their improvement process succeeded. They

could try to find out if the action steps managed to improve the internal invoicing processes as they were meant to, and if they reached the target state that was mentioned in the analysis and also in this study.

For me this final thesis has taught many things. First of all, the topic internal invoicing is not my expertise in any way and because of that I had to work maybe a bit harder to get acquainted with everything related to it. Secondly, The Company wanted this study to reveal the legal issues concerning e-invoicing in global companies and because of that I had to familiarize myself with quite new topics like transfer pricing and taxation in global context. Studying all the material needed for this final thesis took a lot of time and effort but at the end I learned so much it was definitely worth it. In addition the information I gathered for this study is really useful in real life as well because information about taxation, transfer pricing and other legal things concerning invoicing and e-invoicing is always needed. However despite the fact that this topic was not at all familiar to me I think I managed to study it quite well and I also managed to combine the theoretical framework to the empirical study. This study should also reveal the legal issues concerning e-invoicing that The Company wanted me to look into.

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