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IMPROVING REPORTING AND INTERNAL CONTROL WITH PROCESS THINKING – Case study in a multinational corporation

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ABSTRACT

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The aim of this Master's Thesis is to find applicable methods from process management literature for improving reporting and internal control in a multinational corporation. The method of analysis is qualitative and the research is conducted as a case study. Empirical data collection is carried out through interviews and participating observation. The theoretical framework is built around reporting and guidance between parent company and subsidiary, searching for means to improve them from process thinking and applicable frameworks. In the thesis, the process of intercompany reporting in the case company is modelled, and its weak points, risks, and development targets are identified. The framework of critical success factors in process improvement is utilized in assessing the development targets. Also internal control is analyzed with the tools of process thinking. As a result of this thesis, suggestions for actions improving the reporting process and internal control are made to the case company, the most essential of which are ensuring top management's awareness and commitment to improvement, creating guidelines and tools for internal control and creating and implementing improved intercompany reporting process.

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Tämän Pro gradu -tutkielman tavoitteena on löytää prosessikirjallisuudesta soveltuvia menetelmiä raportoinnin ja sisäisen valvonnan kehittämiseen monikansallisessa yhtiössä. Tutkielmassa sovelletaan kvalitatiivista analyysitapaa ja tutkimusstrategiana on tapaustutkimus. Empiirisen osion aineistonkeruu suoritetaan haastattelujen ja osallistuvan havainnoinnin avulla. Teoreettinen viitekehys rakentuu emo- ja tytäryhtiön välisen raportoinnin ja ohjauksen ympärille, etsien keinoja niiden parantamiseen prosessiajattelusta ja soveltuvista viitekehyksistä. Tutkielmassa mallinnetaan kohdeyrityksen yhtiöiden välisen raportoinnin prosessi, tunnistetaan sen heikot kohdat, riskit ja kehityskohteet. Prosessien parantamisen kriittisten menestystekijöiden viitekehystä hyödynnetään kehityskohteiden arvioinnissa. Myös sisäinen valvonta analysoidaan prosessiajattelun hengessä. Tutkielman tuloksena annetaan suosituksia toimenpiteistä kohdeyrityksen raportoinnin ja sisäisen valvonnan parantamiseksi, joista merkittävimpiä ovat ylimmän johdon tietoisuuden ja parantamiseen sitoutu-

misen varmistaminen, sisäisen valvonnan suuntaviivojen ja työkalujen luominen ja parannellun yhtiöiden välisen raportointiprosessin luominen ja käyttöönotto.

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What a great feeling it is to be finally writing these words. Several years have passed since I finished my studies at LUT, and the working life has swept me away since. To be honest, there were times when I thought I would never get to this point. But last fall I found inspiration and motivation to start writing my thesis and thus finalizing my studies, and now here I am, going back to these months of research and typing, thinking of all the people that have made this possible.

First I would like to thank my supervisor, Professor Satu Pätäri, for all the help and support during this project, and particularly helping me turn the practical assignment into Master's Thesis. Second, I would like to thank the personnel in the case company, especially Ismo for constant encouraging and fruitful conversations, and also Heikki, Eija, Teppo, Tiia, Lisa and Todd, thanks for taking part in this study.

Without the help from home front this thesis would have been a mission impossible. I want to thank my mother Airi, father Veijo, and mother-in-law Birgitta, for believing in me through all this time, and for practical help in the form of childcare as well. Thanks goes also to my son Emil, who has taught me to tolerate imperfection in myself, which has a great deal to do with getting this thesis done. And last, there are no words to describe the gratitude I feel for my husband Teemu, for putting up with me all these past months I spent with this thesis, so I just settle to say thank you for being there.

Lappeenranta, Finland 25.5.2015

Jenni Heimala

Contents

1. INTRODUCTION

1.1 Background of the study

The operating environment of companies is undergoing fundamental change due to global competition, the evolution of information networks and digitalization, and increased mobility. This has led to tightening of productivity requirements and thus need to function in a more efficient way. Top management is under pressure from several directions, as they are accountable for the performance and financial standing of the company to the board and all stakeholder groups, internal and external. In the context of multinational corporation (MNC), the international aspect brings more challenges, as the top management has to take responsibility for the actions of its foreign subsidiaries as well as homeland operations. This calls for tight corporate governance, and top management is required to organize it.

Internal control is a part of corporate governance, and works as a system for managing the risks threatening the achieving of objectives. According to DuBrin (2000, 3), control is one of management's principles, and thus an inseparable part of management process alongside with planning, organizing, staffing and leading. Often though, the concept of internal control is misunderstood, leading to problems. As Simons (2000, 5) points out: "*Managers can fool themselves into thinking that because the business is profitable, controls must be adequate*". In addition, a culture, where companies rush full-speed forward without brakes, can lead to inadequate emphasis of proper risk and control management, and jeopardize long-term financial performance (Pfister 2009). Regarding decision making, internal control provides information quality and reliability for any decision maker in the organization (Pfister 2009, 22). High-quality information is essential to the successful management of the business, and is one of the major drivers of sustainable organization success. The challenge in multinational corporations is international operational background with entities around the world with different cultural backgrounds and legal demands. As parent company is accountable for its owners for the performance and reporting of the whole corporation, it's extremely important that there exists an adequate control over subsidiaries also.

The objective of internal business and financial reporting is to get relevant and reliable information quickly enough in order to use it in decision-making. Thus it's important, that the reporting process is appropriate and efficient. Process can be generally defined as a set of events creating value to a customer (Coskun et al. 2008, 243). Process management is traditionally connected with manufacturing industries, but more studies have shown that also e.g. financial services and reporting have successfully implemented process improvement techniques in pursuit of more efficient and controlled processes (McCarthy & McCarthy 2011; Hoerl et. al. 2004; Ponsignon et. al. 2012; Smith & Mishler 2014). Process management has attracted and gained the attention of many businesses, but yet it remains a much debated topic in research field due to limited empirical evidence provided by academic literature. Process improvement has been high on companies' agenda for years, and according to Al-Mashari (2002), significant benefits can be attained from implementing business process management (BPM). However, many companies still face the challenge of how to implement process principles in an organization's operations. There are several approaches with different emphasis'; business process management, business process reengineering, total quality management and continuous process improvement. (McGormack et al. 2009; Ponsignon et al. 2012; Škrinjar & Trkman 2013; Zhang & Cao 2002). Applying process improvement techniques in renewing reporting processes and internal control still remains quite uncharted territory, since there only exists few studies in the field.

1.2 Research problem, objectives, and delimitations

The aim of this thesis is to explore how internal control and intercompany reporting process, more specifically the reporting from a subsidiary to the headquarters, can be improved and better controlled in relation to management decision making. The context for process improvement will arise from process thinking and process management literature. Corporate governance, internal control and reporting will be discussed on the basis of related literature, and also commonly used guidance, frameworks and principles provided by official parties, such as International Federation of Accountants (IFAC) and Committee of Sponsoring Organizations of

the Treadway Commission (COSO). The objective is to find appropriate methods and models for improving reporting and internal control from process management literature, and find target state for internal control and reporting to work as a basis for improvements from the related literature. The study will be made as an assignment in a case company, which is a multinational corporation in the field of technological industries. It's headquartered in Finland, and has five subsidiaries around the world. This study will focus on the relation between one subsidiary located in the USA and the Finnish parent company.

The perspective this study takes is that of top management. This is because top management is responsible for arranging proper governance and internal control in the organization. Also reporting will thus be processed from the point of view of management decision making; the aim is to improve the reporting process in such a way it better serves top management in their decision making. Thus one objective is to identify the information needs top management has.

The first step of the empirical part of the study is to define and model the current reporting process. The process will be analyzed, concentrating on the risks which current process has in relation to management decision making. Next the improvement possibilities will be pondered utilizing process thinking combined with the improvement targets arising from internal control and reporting related literature as a theoretical framework and empirical data from interviews and observation. As a result of this study, there will be tools and guidelines for improving internal control and intercompany reporting in the case company.

Main research problem is:

- How can intercompany reporting process be improved in a multinational corporation?

Sub-questions are:

- How can management decision making be supported with internal control and reporting?

- How can process management be utilized in improving internal control and intercompany reporting process?
- What are the main risks in intercompany reporting and how can they be controlled?

In this study process management is employed as a way of thinking. Process management and process improvement literature will be included only in the extent to which they can be utilized generally to different kinds of processes, with emphasis on information intensive processes, such as reporting, in particular. In other words all deeply production oriented process management literature will be delimited out of this study.

As the perspective of this study is that of management, corporate governance and internal control will also be studied from the management's point of view. Therefore the focus will be on internal control as a driver of business performance, and the aspect of compliance with laws and standards of internal control will be excluded from this study. However, study will include company's internal policies and compliance with them, as long as it's crucial to business performance perspective. In internal control, the objective of reliability of reporting will be highlighted. Furthermore, this thesis will primarily concentrate on internal control of the subsidiaries, and the reliability of their reporting. The aim is not to build an internal control system, but to set general guidelines to be followed in terms of internal control, that apply to each subsidiary.

In reporting, the aspect that this study takes is internal financial reporting. External reporting, which is controlled by laws and regulations, and operational reporting, will be left out. Furthermore, this study will focus on intercompany reporting, which the subsidiary prepares for the headquarters. Internal policies and instructions related to intercompany reporting are also included to this study.

1.3 Research method and material

This thesis is a classical qualitative case study concentrating on a single case company, since it's made as an assignment to the case company. As the starting

point for qualitative research is describing real life (Hirsjärvi et al. 2007, 157), it fits right into the picture as the empirical part consists of actual events in the case company. Moreover, qualitative research is often used when studying processes. Another important aspect of qualitative research is, that it rather strives to discover or reveal facts than to verify existing truths (Hirsjärvi et al. 2007, 157). Usually case study seeks to examine individual cases in their natural environment. Thus its approach is practical and it can be used in creating guidelines for concrete actions (Hirsjärvi et. al. 2007. 130-131). People are used as instruments in information gathering in the form of interviews and participating observation is another method used for information gathering in this thesis. The interviews will be carried out as unstructured interviews, in other words the researcher studied the thoughts, opinions and views in the order in which as they came across during the discussion. (Hirsjärvi et al. 2007, 200) This gives the informant the possibility to freely express themselves without constraints from ready-made questions, and the possibility to go deeper on essential issues.

For the empirical part, several interviews will be held. Members of the senior management, CEO (Chief Executive Officer) and CFO (Chief Financial Officer) will be interviewed regarding their main concerns and risks in current reporting and information needs in general and especially from subsidiaries related to decision making. To get a picture of process management in the case company, and assistance in modelling the reporting processes, Quality Manager will be interviewed. In the subsidiary, the CEO and accountant being responsible for reporting will be interviewed as well. On top of interviews, participating observation is an important tool for data gathering, since the researcher works as a controller at the parent company in the case corporation. Her duties include management accounting and reporting on a group level, so her contribution to the study is not only to be an observer in the outside, but she is able to use her own expertise in the study.

1.4 Theoretical framework of the study

Theoretical background for this study is built on corporate governance in multinational enterprises, internal control and reporting, and process management

and process improvement methodologies. Board of directors are accountable for organizing adequate corporate governance structure in the company. Top management is responsible for organizing and maintaining effective internal control in the company, which is a part of corporate governance. The core of the study is internal control, which the headquarters in an MNC exercises, and which must be extended to include foreign subsidiaries also. The flow of reporting goes from bottom to top, from subsidiary through headquarters and top management finally to the board of directors. On the other hand, from top to down, starting from the board of directors, and finally reaching the subsidiary after having gone through top management and headquarters, the guidance and oversight is served. Process management and process improvement come into the picture, when trying to find ways to improve the internal control and the intercompany reporting from subsidiary to parent company. The initial framework of the study is presented below in figure 1.

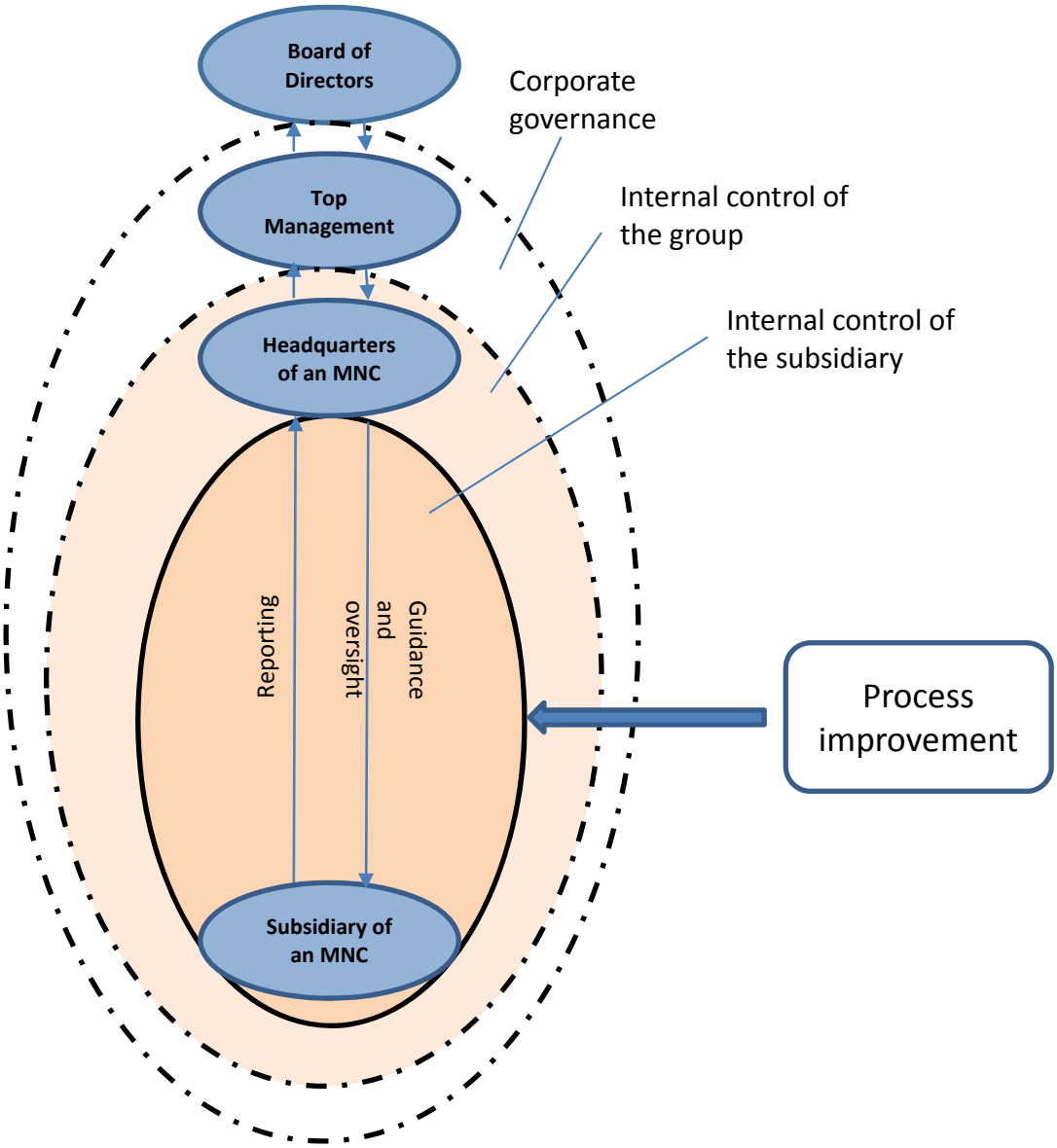


Figure 1. Initial theoretical framework of the study

1.5 Structure of the study

This thesis consists of five chapters. The first chapter is the introduction, were the background and the guidelines for the study are set, research method and material are briefly presented, research problems, objectives and delimitations defined, and initial theoretical framework of the study introduced. The second chapter is about theory, and concentrates on the concepts, guidance, frameworks and principles of

corporate governance, internal control and reporting. Also special features of multinational corporation regarding internal control and reporting are covered. Previous research regarding corporate governance, internal control and reporting in multinational corporations is presented at the end of the chapter. The third chapter sets the theoretical background for process management and process improvement. Basic concepts are defined, and common structures for processes of internal control and reporting are introduced. Appropriate methods for improving internal control and reporting processes are searched from literature. At the end of the chapter, a theoretical background for empirical part, or advanced theoretical framework, is summarized in a figure. Chapter four focuses on empirical study. It starts with a portrait of the case company, and the background and motivation for the study are discussed. Also the research method and material used in the empirical part are described in a more detailed level than on the introduction. The actual study part starts with describing and analyzing the current state of intercompany reporting and internal control in the case company. The last section of the empirical study aims at finding ways to improve internal control and reporting with process thinking, and also practical improvement actions are presented. The fifth chapter of the thesis summarizes the study, and discusses the results by reflecting the results of the case study with the results from previous research. Limitations and further research will be discussed, and also the practical value of the study will be raised.

2. REPORTING AND INTERNAL CONTROL IN A MULTINATIONAL CORPORATION

Corporate governance, internal control and reporting are all interrelated subjects; one cannot exist without another. Each of the terms is vast, and in this chapter they will first be generally defined, after which will be concentrated on the essential issues regarding this thesis. First, concepts of corporate governance and internal control will be covered, and then the focus will be on the most commonly used internal control framework, COSO. After that, processes of internal control and reporting will be presented. Next the focus is on how management's decision making can be supported with internal control and reporting. Then some special features, relevant to this study, related to MNC's will be brought up. Finally, previous research of the theme, concentrating on corporate governance, internal control and reporting in MNC's will be introduced.

2.1 Corporate governance and internal control

Corporate governance as a concept does not have just one generally accepted definition. A traditional perspective highlights shareholder wealth maximization, whereas newer academic literature broadens this view with ethics, accountability, transparency and disclosure. (Windsor 2009, 307; Gill, 2008) Gramling et al. (2004, 195) present one comprehensive definition: "*Corporate governance comprises the procedures and activities employed by the representatives of an organization's stakeholders to provide oversight of risk and control processes administered by management*." Another angle to corporate governance on top of conformance to regulations is improving the organization's performance, and thus not only protect but also enhance the interests of its diverse stakeholder groups. This was introduced by International Federation of Accountants, IFAC, which is a global organization issuing standards and guidance for accounting profession. (IFAC 2009)

Corporate governance has two different perspectives; conformance and performance. Conformance part focuses on compliance with laws, regulations, governance codes and accountability. Performance side of governance attends to

policies and procedures that involve opportunities and risks, strategy, value creation and resource utilization, and therefore guides an organization's decision making. Rules and definitions for conformance come from outside the organizations, whereas performance side is based on internal issues of the company. (IFAC 2009) Below in figure 2 is stated the governance framework, which shows the relationship of the two dimensions of governance.

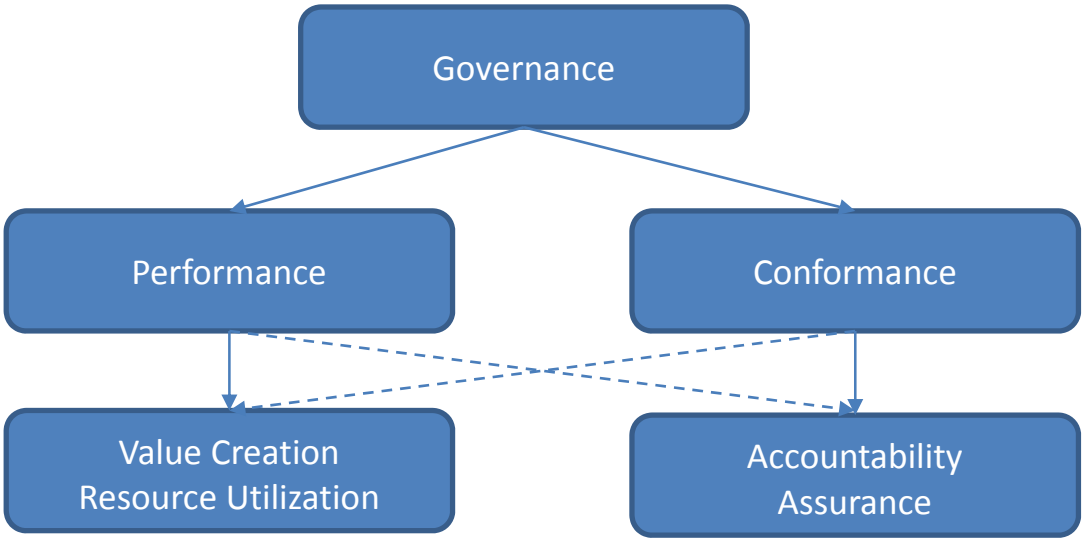


Figure 2. Governance framework (IFAC 2009)

Performance dimension tends to be forward-looking, whereas conformance dimension usually takes historic view into organization. The governance structure in most organizations is often focused on conformance with regulations. Though it's important, governance structure should also support an organization's efforts to improve performance. The organization should strive to find a balance between conformance and performance in their governance structure, as these two dimensions enhance each other and the organization as a whole. (IFAC 2009) According to an independent survey commissioned by IFAC (2008), many organizations focus too much on compliance, and don't pay enough attention on e.g. strategy and building a business. Also, many organizations seem to suffer from a checklist mentality, leading to governance in name and not in spirit (IFAC 2011).

Corporate governance as a set includes two major concepts; risk management and internal control. These three topics should not be separated, but always considered as an integrated set, with strong connections and mutual effects on each other. E.g. a control should always be designed, implemented and applied as a response to a specific risk. However, this is just what the organizations have the most difficulties in when arranging internal control; According to the global survey IFAC made in 2011 regarding risk management and internal control revealed that organizations still struggle with integrating risk management and internal control into governance system (2012b). Efficient corporate governance also assists in ensuring that management reporting is accurate and internal controls are effective (Gramling et. al. 2004, 195-196). Further, effective internal control system is one of the best defenses against business failure, but also an important driver of business performance. Efficient internal control system manages risks and enables the creation and preservation of value. (IFAC 2012b) The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has created a framework for internal control, which is well known and widely accepted as a standard. COSO defines the concept as follows: "*Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance*" (COSO 2013, 11). United States Government Accountability Office (GAO 2005, 1) brings another perspective into internal control by stating that it "*represents an organization's plans, methods, and procedures used to meet its missions, goals, and objectives and serves as the first line defense in safeguarding assets and preventing and detecting errors, fraud, waste, abuse, and mismanagement*".

Research in internal control can be divided into two categories; focused view, which is traditional accounting-oriented view, and a comprehensive business view. Traditional accounting controls are widely studied in auditing research. The comprehensive view, including controls in operations and compliance, is much promoted in the internal control frameworks, but has found less attention in the research. (Pfister 2009, 16; Maijoor 2000, 105) It seems, that the practical value of internal control to management, directors, shareholders, and auditors is much wider

than the limited amount of research would indicate (Kinney 2000, 83). Also the use of terminology in research seems to be inconsistent; internal control as a term is rarely used in any other field than auditing research. Instead, literature related to management and strategies, often refer to only 'control' or 'management control', but the definition of these terms is usually the same as the comprehensive view of internal control. Thus such articles, where there is no mention about 'internal control' as a term, but which clearly are relevant, have also been included in this study.

Management control can be defined as being the process where managers influence other members of the organization in such a way that their behavior will help in achieving the organization's goals. Simons (1995, 130) has presented another definition, where management control is "*a feedback process of planning, objective setting, monitoring, feedback and corrective action to ensure that outcomes are in accordance with plans*". Management control consists of elements such as budgeting, resource allocation, performance measurement and reward. (Anthony & Govindarajan, 2004; William & van Triest, 2009)

Figure 3 below illustrates the relationship between strategic control, management control and internal control.

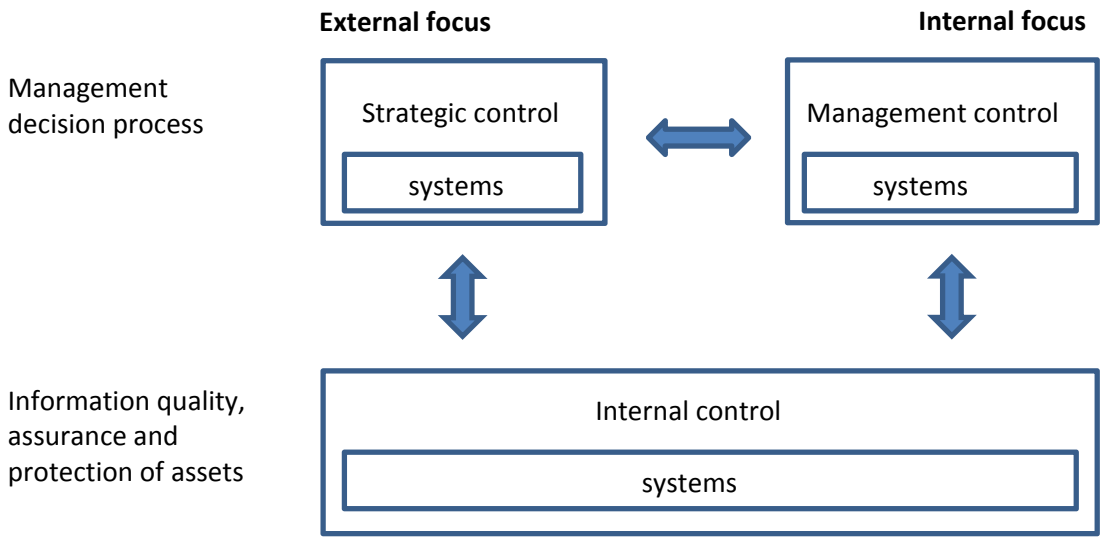


Figure 3. Interrelation of strategic control, management control and internal control. (Pfister 2009, 24, adapted from Simons 1995, 128)

Internal control provides the foundation for all other systems, and is hence illustrated at the bottom of the figure. The information quality provided by internal control flows up into strategic and management control systems and builds the foundation for any strategic and management control decision. Aspects of internal control are similarly discussed in strategic and management control, but the focus is somewhat different. While internal control provides reasonable assurance for information quality and safeguarding assets, whether management decides to act and what actions to take are outside of internal control. Management decision making processes are part of strategic control and management control. In strategic control, the primary focus is outside the organization, as it concentrates on organizations strengths, weaknesses, opportunities and threats among the industry. Management control in turn has its focus inside the organization, with primary concern being the resource allocation in a way that people will work toward organizational objectives. (Pfister 2009, 24-25)

2.2 COSO framework

There exists many frameworks, which give practical guidance to companies on how to apply internal control in their organization. The frameworks represent the comprehensive view on internal control. The most common framework in practice is COSO, which can be applied in all types of organizations, from small to large entities. The original version, *Internal Control – Integrated Framework,* was issued in 1992, in order to help businesses and other entities to assess and enhance their internal control systems. Other frameworks emerged during the following years, of which the most famous are Guidance on Control framework from Canada (CoCo) and the Turnbull guidance from the United Kingdom. The CoCo framework is built on COSO, but takes a slightly broader approach by adding internal elements to the objectives. The Turnbull guidance in turn is not as detailed as the other two frameworks, but takes a more principles-based perspective, and includes mandatory guidance for listed companies in the United Kingdom. Since the 1990s, many major changes have taken place in financial reporting and related legal and regulatory environments, with Sarbanes-Oxley Act of 2002 having the most radical impact. As a result, a new, updated version of the COSO framework was published

in 2013. In between on these two publications, COSO has issued several guidance to help interpreting the framework in different organizations. (COSO 2006; COSO 2013; Pfister 2009) This study will concentrate on the updated COSO framework from 2013, since the refined concepts are a better match to the ones in the study. E.g. as the initial framework had a category which included only financial reporting, the updated one has expanded the category to contain also other important forms of reporting, such as internal reporting and non-financial reporting. In addition the new version considers elements that are relevant in current time, such as globalization, demands of laws and regulations, changing technology to name just a few. (COSO 2013) The framework emphasizes management judgement in designing, implementing, and conducting internal control. The objectives are divided into three categories, which are different aspects of internal control; operations, reporting, and compliance. Operations objectives encompass effectiveness and efficiency of operations in the entity, including operational and financial performance goals, and safeguarding assets against loss. Reporting objectives include internal and external financial and non-financial reporting, and deal with e.g. reliability, timeliness, transparency, which are set forth by regulators or entity's policies. Compliance objectives refer to adherence to laws and regulations to which the entity is subject. (COSO 2013, 3)

According to COSO framework internal control consists of five integrated components; control environment, risk assessment, control activities, information and communication, and monitoring activities. Control environment consists of standards, processes and structures that provide the basis for performing internal control across the organization. The board of the directors and senior management establish the tone at the top regarding the importance of internal control, and management is responsible for implementing it at the various levels of organization. Risk assessment is a dynamic process for identifying and assessing risks to the achievement of objectives, and thus forms the basis for determining how the risks will be managed. Management specifies risks related to three types of objectives defined above, and also considers possible changes in the external environment and within its own business model that may affect internal control. Control activities are based on policies and procedures, and help to ensure that management's

directives to mitigate risks are carried out. Activities are performed at all levels of organization, and they may be preventive or detective in nature. Information and communication are important for internal control to be carried out successfully; management gathers information from internal and external sources to support the functioning of other components of internal control. Communication is a continual process of providing, sharing and obtaining necessary information. Monitoring activities are evaluations used to assessing the functioning of the other components of internal control. (COSO 2013)

It's important to create and maintain a culture that promotes control awareness throughout the organization to ensure that all the benefits from effective internal control can be reached. However, positive examples of such a culture are rare, while negative examples are found in abundance. (Pfister, 2009, 2)

2.3 Processes of internal control and reporting

COSO has presented in their 2006 publication a process for internal control over financial reporting. It assembles the framework's components working together as a cycle, concentrating on the reporting objective on internal control. The process form of internal control will be presented here, as this thesis concentrates on the process of internal control, rather than developing a holistic system of internal control. The process perspective highlights the interrelationship of the components, and also recognizes that management has flexibility in choosing controls to achieve its objectives. Organization is able to adjust and improve its internal control over time. (COSO 2006)

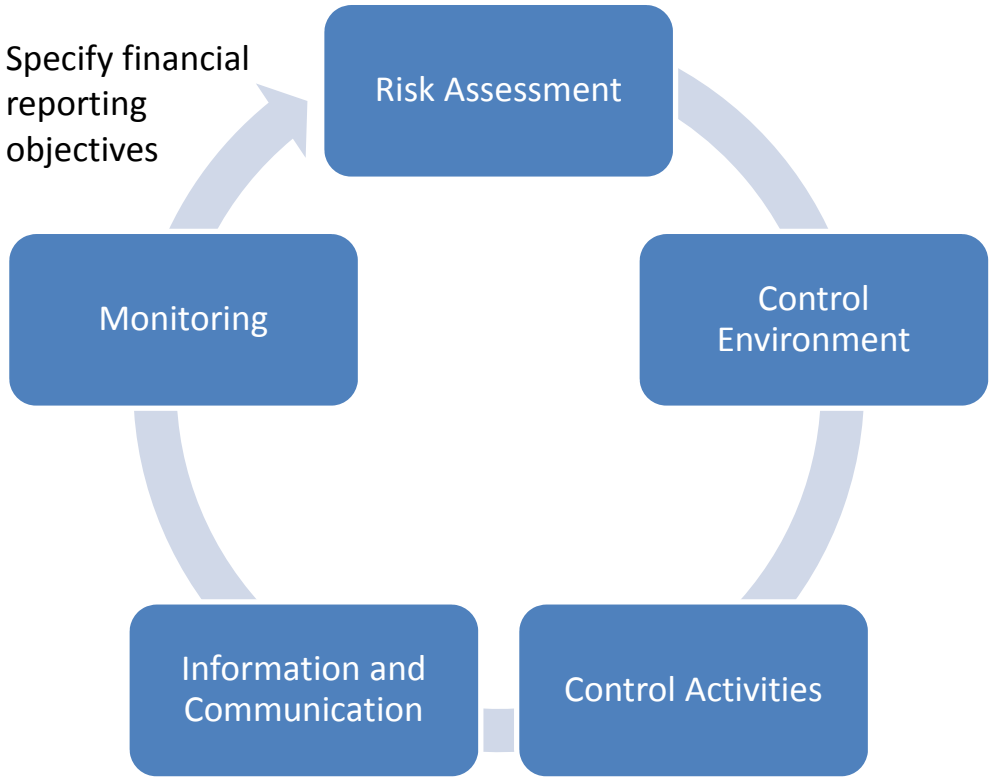


Figure 4. Internal control as an integrated process (COSO 2006)

The internal control process begins with financial reporting objectives setting by management. The objectives must be relevant to the company's particular business activities and circumstances. Then management identifies and assesses the risks related to those objectives, and how the risks could be managed through a range of control activities. Next step is implementation of approaches to capture, process and communicate information needed for financial reporting and other components of internal control. All this takes place in context of the company's control environment, which is shaped and refined as necessary to provide the appropriate tone at the top of the organization and related attributes. All these components are monitored to ensure that controls continue to operate properly over time. (COSO 2006)

Regarding the process of reporting, IFAC (IFAC 2013) released guidance for effective business reporting process. The guidance includes many principles suitable only for external financial reporting, but such principles, which are

applicable within this thesis, are introduced here. The principles used in this thesis and their relations, are presented in figure 5 below.

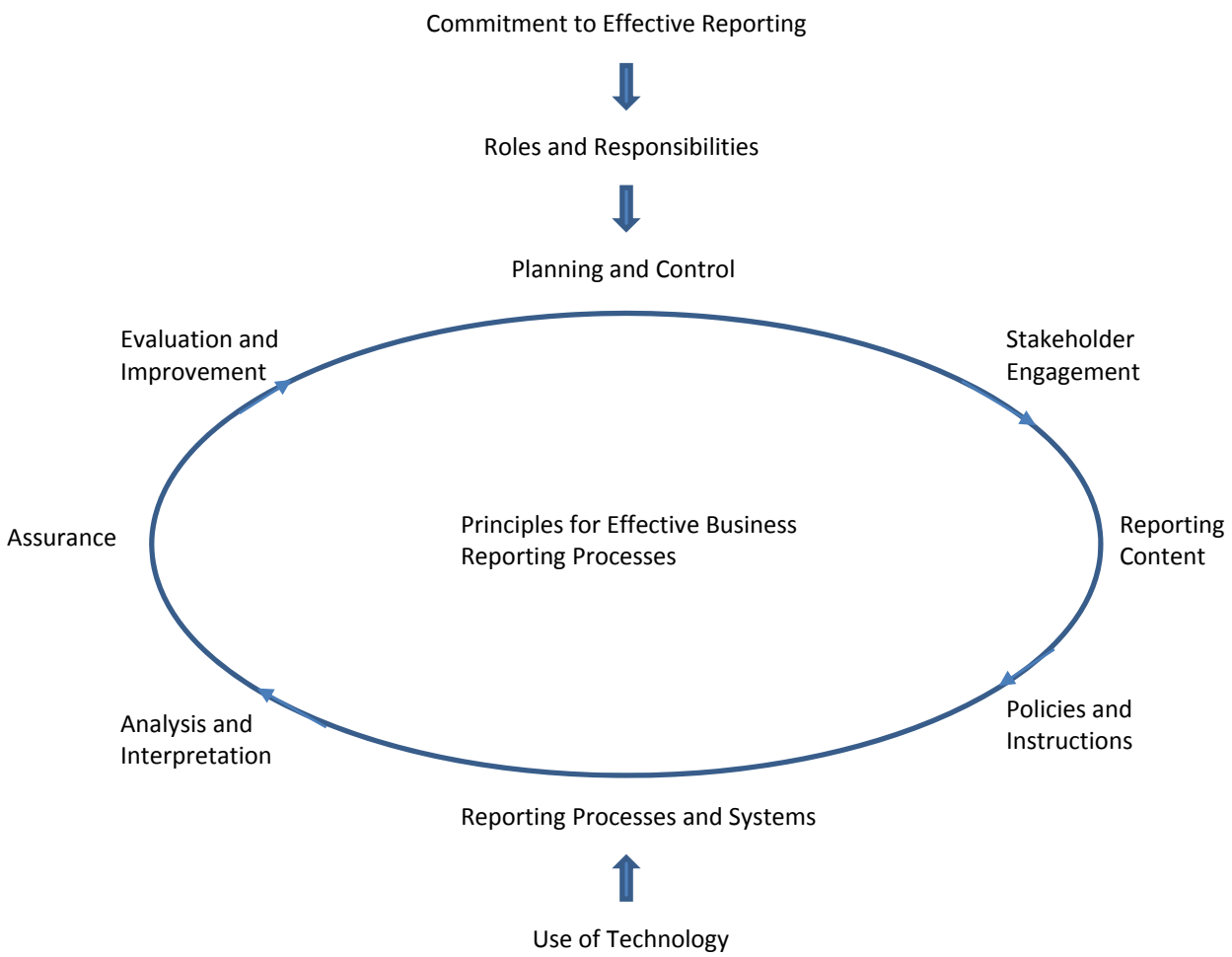


Figure 5. Relation of reporting principles (adopted from IFAC 2013)

The first principle is management's commitment to effective reporting. Senior management should ensure that the organization has an adequate reporting processes and controls in place, in order to deliver high-quality reports. Management needs to permit enough resources to create and maintain the reporting process. Also, management should decide, how the reports should be presented to avoid information overload and time wasted preparing and reading unnecessary information. The second principle deals with determining roles and responsibilities, by appointing the appropriate personnel, and coordinating collaboration among those involved in the reporting process. Management should also consider involving staff and line management from other functions in the organization to provide more

in-depth explanations of the activities. The third principle handles planning and controlling the reporting processes, which includes risk identification. The organization should document its reporting processes, with identified risks and related controls included, in reporting or accounting manuals, policies and procedures. The fourth principle is engaging stakeholders, both internal and external, to understand their information needs and adjust the reporting accordingly. The fifth principle is dedicated to defining the reporting content. Once organization has a clear view of the information needs, they should translate this into reporting demands. The successful reporting in terms of decision making is open, transparent, and has a forward-looking orientation. The organization should focus on what's important for the readers of the report, and not overwhelm them with unnecessary details. Also, the organization should consider providing different information for different stakeholders reflecting different informational needs. However, the reported information must be consistent within each level of reporting. The frequency and timing of reporting is an essential issue, and should be designed to meet stakeholders' needs. The call for more frequent and timely reporting is a good motivator for organizations to improve their internal control. The reverse for making the reports faster, is that the earlier the information is reported, the greater is the need for estimates, and the shorter the time for analysis, which can have an effect on accuracy of the reports. Furthermore, higher frequency reporting may increase costs, and therefore management should determine the appropriate balance between using estimates, costs, analysis and interpretation, and the timeliness of the reports. IFAC's sixth principle deals with selecting frameworks and standards, but since this only applies to external reporting, in this thesis the principle is about internal policies and instructions. The organization should have adequate internal policies and instructions for reporting available. They should be regularly updated, and their use monitored. The seventh principle is about determining reporting processes. The essence is to determine what information needs to be capture, processed, analyzed, and reported, and how to organize the information processes and related systems for effective reporting. In other words improving the organization's reporting processes should start with a top-down review, starting from the information needed for reporting and then restructuring the reporting processes so that they will be able to provide the required information. Information technology

(IT) plays a central role in the process of business reporting. The eighth principle deals with reporting technology, and according to it, organization should use appropriate communication tools and decide how to optimize the distribution of the reports. The ninth principle consists of analyzing and interpreting the reported information. Management should remember, that time pressure to deliver the information should not allow reports to be issued without sufficient analytical review and interpretation. The tenth principle handles assurance in order to maintain accountability, transparency and reliability or reports. The last principle is about evaluating and improving reporting processes regularly in order to identify and carry out further improvements required for maintaining reporting effectiveness. (IFAC 2013)

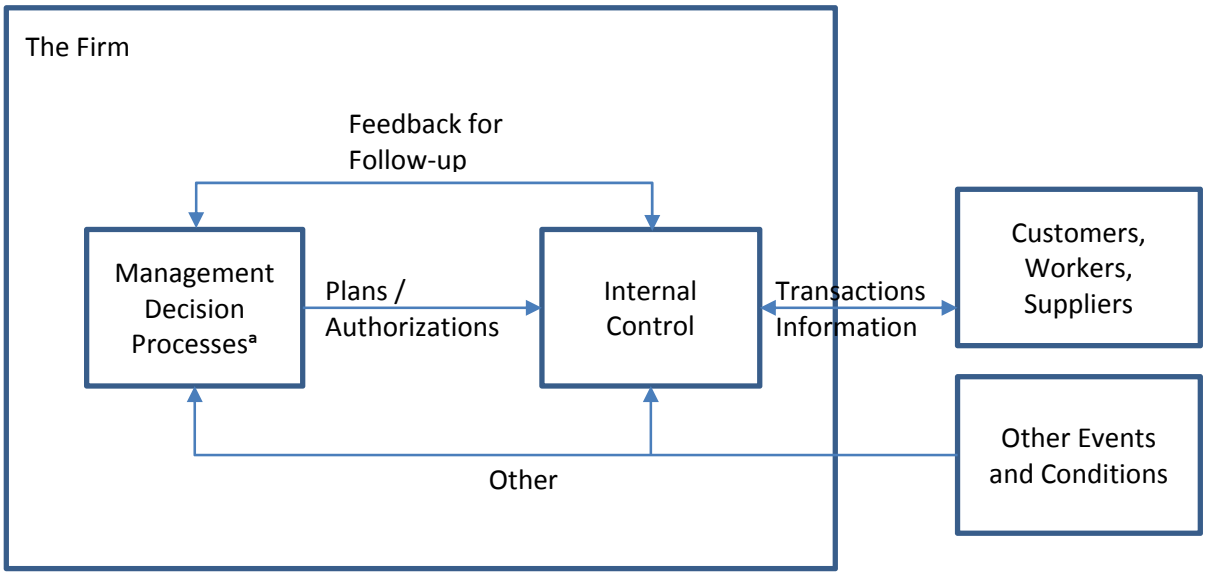
2.4 Supporting management's decision making with internal control and reporting

Decision making can be considered the most significant activity engaged in by managers in all types of organizations and at any level. (Harrison 2006, 46) Mintzberg et al. (1976) have defined decision as a set of actions and dynamic factors beginning with the identification of a stimulus for action and ending with a specific commitment to action. A definition for decision generally accepted in the literature of managerial decision making emphasizes the process character of decision making; it defines decision as a moment in an ongoing process of evaluating alternatives for meeting an objective, at which the decision maker selects the course of action that most likely results in attaining the objective (Harrison 1995, 4; Harrison 1996, 46). When making decisions, information is needed to reduce uncertainty, which means the inability to predict accurately what the outcomes of a decision might be (Duncan, 1972; Frishammar 2003). Information used in decision making can be categorized into soft and hard information. Soft information is broad, subjective and general. Hard information in turn can easily be quantified, and is usually numerical. (Frishammar 2003)

Harrison (2006, 48-51) presents the functions which are the components of the decision making process. The first function is setting managerial objectives, after

which the search for alternatives from internal and external environment of the organization takes place. Then the alternatives are compared and evaluated, and once that's done, the choice can be made. Finally the decision is implemented, with continuous follow-up and control. The need for information becomes apparent when searching for alternative choices. The characteristics for a successful strategic choice include an open and extensive search of alternative courses of action, objective comparison and evaluation of the alternatives, and a tendency to select the alternative which most likely will result to achieving of the objectives.

Figure 6 below demonstrates, that internal control is an essential part of management's decision making processes. Management's activities are divided into two categories: management decision processes and internal control. Management decision processes determine a business strategy for several periods, operating plans for current period (e.g. budgets) and follow-up actions on deviations from expected outcomes. Strategy and plans are implemented through business processes, which interact with actual events, transactions and conditions. This is all authorized and monitored by internal control for possible follow-up by management. From the internal control perspective, it has several inputs, such as information of transactions with customers, workers and suppliers (e.g. sales, payroll, and contracts), other events and conditions (e.g. new regulation or natural catastrophe), other internal information as well as information based on management decisions. Internal control prepares all this information for management decision processes, and thus impacts the decisions made by management. (Kinney 2006, 84-85; Pfister 2009, 23)



[a] Strategic and operating planning and follow-up of exceptions.

Figure 6. Management Decision Processes and Internal Control (Kinney 2000, 85)

Quality of reporting affects the management decision making. With high-quality reports, better ability to make decisions should be evident. Also, high-quality information is essential to the successful management of the business, and is one of the major drivers of sustainable organizational success. The best way to ensure such reports with high-quality information is and effective reporting process. The key to better reporting is management's commitment to implementing an effective reporting process into the organization. (IFAC 2013)

2.5 Special features of multinational corporations

A multinational corporations is a group of geographically dispersed organizations, which belong to the same corporation. Typically they have a headquarters in one country and separate national subsidiaries in different countries. (Ghoshal & Bartlett 1990, 603) Often only giant multinational corporations are perceived as multinational, but the smaller ones should not be forgotten either. MNC's have been a subject of academic research for years from a variety of perspectives, the most popular being entry strategies, growth and knowledge spillovers (Alpay et al. 2005, 67-68) Multinational corporations often struggle with investor, exchange and

regulatory pressures for increased financial transparency, fiduciary accountability, short-term financial performance, and long-term strategic viability. Also interacting forces related to geography, products, markets and technology become more complex on a global scale. (Windsor 2009, 306-307; Luo 2005, 20)

Multinational corporations face a complex managerial decision-making environment that generates a range of monitoring difficulties. The more global the firm is, the more organizationally complex it is to manage. Such corporations face cultural and legal diversity across markets, and they must develop, coordinate, and maintain organizations that span international boundaries. Information complexities arise due to geographic dispersion, multiple currencies, high auditing costs, differing legal systems, and cultural and language differences. Thus corporate governance and internal control in a MNC has been considered a greater challenge than in a domestic corporation. Problems in controlling a multinational corporations are often caused by too simple internal control system, which is designed for home country operations and then extended to foreign subsidiaries (Alpay et al., 2005; Hassel 1991, 17, 32; Reeb et al., 1998). Therefore when planning a control system for MNC's, it's crucial to start from scratch and consider the MNC as a whole.

2.6 Previous research of the theme

Kinney (2000, 83) raises an important question in his article, envisioning himself as being a CEO of a MNC: "*How would I know whether I was getting the right information for decision making, that my assets were being protected, and that my people were complying laws, regulations and company policy – all on a worldwide basis?*" When tightening corporate governance in an MNC, it means increased compliance with specific standards and practices recommended in national and international governance codes and guidelines. In practice this involves reducing entrenchment and discretion of top managements and governing boards, and also increasing both formal and willing compliance of executives and directors with internal and external governance codes and guidelines. Compliance with governance prescriptions should be seen as a source of competitive advantage, not

just another rule to be followed. Corporate social responsibility is also something MNC's should take into consideration. (Windsor 2009, 306-307; Luo 2005, 20)

Governing MNCs requires appropriate balance of transparency and efficiency or accountability and growth (Luo 2005, 20). Regarding conformance aspect of corporate governance and multinational corporations, international standards for governance have been established. However, the compliance of such standards requires large fixed costs (Alpay et al. 2005), which makes it impossible for many SME's to conduct. Also the series of company scandals and industry or financial crises during the early years of 2000s has led to accelerating speed of tightening corporate governance. (Cadbury, 2006, 25) The most famous corporate governance standards are the Sarbanes-Oxley Act of 2002 (SOX) and International Financial Reporting Standards (IFRS). Both of these try to unify the internal control and reporting of companies in order to make it more transparent and to facilitate the revelation of possible abuse. However, Finegold et al. (2007) argue, that recommended standards and practices have not been well proven to be implementable or effective and often are not comprehensively studied in academic literature.

Prior research has shown that control systems in MNC's are influenced by both firm-level characteristics and the external environment. For example, changes in political regimes, regional integration, the forces of globalization and powerful developments of information and communication technologies have contributed to a need to reassess how MNC's organize and control themselves. (Williams & van Triest, 2009; Archibugi & Iammarino, 2002). On the other hand, corporate culture influences the organizational decision making by representing the system of ideas and beliefs in the organization, and thus working as the "*normative glue*" holding the organization together (Smircich, 1983). Below in Table 1 is listed the most relevant studies handling corporate governance and internal control in MNC's in regards to this thesis, and the findings are summarized in the next paragraph.

Table 1. List of studies regarding governance, internal control and reporting in MNC's.

Year	Author	Topic	Research type	Main results
2009	William, C. & van Triest, S.	The impact of corporate and national cultures on decentralization in multinational corporation	Quantitative	External cultural factors play an important role in MNC decentralization, and should be included in internal management control model within an MNC.
1991	Hassel, L.	Headquarter reliance on accounting performance measures in a multinational context	Qualitative	MNC can maintain its control pattern toward foreign subsidiaries, even if local managers have difficulties in accepting the evaluative framework.
2005	Luo, Y.	How does globalization affect corporate governance and accountability? A perspective from MNEs	Qualitative	The main thing 1.) in corporate governance is to improve the ability of the board to monitor top management and 2.) in accountability is to improve financial and non-financial transparency.
2009	Windsor, D.	Tightening corporate governance	Literature review	Directors of MNCs should appreciate cross-national variations in corporate governance and rising importance of both international guidelines and bottom line expectations.

Williams and van Triest (2009) study in their research MNC decentralization, and create a model in which the allocation of decision rights to subsidiaries is explained by aspects of both internal corporate culture and external national cultures. Management control theory is used as the conceptual platform, and they argue, that the assignment of decision rights to a subsidiary in the MNC is impacted by corporate innovativeness and shared values, as well by aspects of home and host country cultures. The findings support the proposition, that corporate innovativeness positively impacts the decision to decentralize. Regarding control in an MNC, the most interesting finding was, that since also external cultural factors play an important role in an MNC, they should be included in the control system as well. This supports the observation made by Hassel (1991) that MNC's will face problems when using control system, designed for home country operations and extending it to foreign subsidiaries. Problems arise due to complex environment and the greater geographical and cultural distances between the units. Another relevant result of the study is, that tight accounting performance measure -based management doesn't affect the work conditions of foreign managers negatively, which in practice means,

that the MNC can maintain its control pattern towards foreign units, although the foreign managers would have difficulties in accepting the evaluative framework.

Luo (2005) concentrates in his study on corporate governance and accountability in MNCs. The research is done on both parent company and subsidiary levels, and international expansion features such as globalization scale, required foreign adaptation, global competition, and international experience are taken into consideration as features for information processing and agency cost reasons. Increased globalization, adaptation requirements and global competition all increase an MNC's environmental and operational complexity, thus increasing information processing and agency demands. In regard to accountability, MNCs respond to challenges of being an MNC by referencing the international accounting standards (IAS) for accounting, auditing, and reporting. MNCs also adopt international accounting information systems to build information templates for corporate transparency, performing more frequent and rigorous internal auditing in foreign units. As international expansion grows, non-financial information becomes more important to shareholders and other related stakeholders, especially concerning share ownership, voting rights, labor relations, environment protection, employee safety, business ethics, organizational integrity, and corporate transparency.

Windsor (2009) writes a literature review on tightening corporate governance in MNCs. The article concentrates on pressures top management and governing boards of MNCs face, and recommends how they should cope with those pressures. The pressures come from governments, international institutions, and nongovernmental organizations. The recommended actions for coping with pressures include identifying and implementing the best governance practices, e.g. careful selection of directors and executives, succession planning, and disclosure and transparency. Also compensation systems should promote strategic sustainability and personal integrity is important. In practice, the executives and directors should appreciate cross-national variations in corporate governance and rising importance of both international guidelines and bottom-line performance expectations.

3. PROCESS MANAGEMENT AND ITS UTILIZATION IN INTERNAL CONTROL

Process management has been a popular topic among consultants and enterprise management during past few decades. Although researchers have also embraced the concept, there still exists limited evidence of its advantages provided by academic literature. Thus the topic has also gained much criticism, and process management has been accused of only being a fashionable management fad without enough evidence to back it up. This chapter begins with presenting approaches for process management. Next on the agenda is the basis for process improvement and success factors, after which attention is towards previous research of the theme, concentrating on utilizing process management in information intensive fields. Finally, theoretical background for empirical part is summarized in a figure.

3.1 Approaches for process management

Process can be defined as a "*sequence of pre-defined activities executed to achieve a pre-specified type or range of outcomes*" (Talwar 1993). Armistead et al. (1995, 56) offer a simplistic definition for process, where process is defined as a transformation of inputs (resources) into outputs (goods and services). Harrington et al. (1997, 1) adds to this definition by making it more descriptive: "*A process is a logical, related, sequential (connected) set of activities that take an input from a supplier, adds value to it, and produces an output to a customer*."

There are many ways to categorize different types of processes. The most common way seems to be the division of processes into core processes and support processes. Core processes can also be called operational processes. They create value for the business, and are associated with the way organizations develop strategies, invent products and services, market and sell the products, manage production and delivery of products or services, and bill customers. Support processes exist to enable the core processes to function properly, e.g. human resource management activities, information systems infrastructure, and finance and asset management. (Llewellyn & Armistead 2000, 225; Laamanen & Tinnilä

2009) Another way to divide processes is presented by Ould (1995); the processes that start when necessary and finish sometime in the future, and the ones that run constantly.

The core belief of process management is that value for the customer is created in a chain of events, which can be called a process. To apply process management, the chain of events has to be identified and modelled, and targets for its realization and development must be set. (Lee & Dale 1998) Elzinga et al. (1995) define process management as "*a systematic, structured approach to analyze, improve, control and manage processes with the aim of improving the quality of products and services*". He also adds, that process management can be any structured approach used to analyze and improve fundamental activities. Zairi (1997) shares this view, and in addition emphasizes continuous improvement and concentration on company's core operations. DeToro and McCabe (1997) point out that the processes within organization are linked across, and while policy and direction come from the management, the authority and responsibility is delegated to cross-functional work teams. Teamwork and employee empowerment is also stressed in Prior-Smith and Perrin's study (1996) of Hewlett-Packard, where they list the employees' responsibilities in process management as follows; identifying the key processes, documenting the key processes, measuring the effectiveness of the processes, and improving the processes. Overall, main aspects of process management seem to be structural, analytical, cross-functional, continuously improving and authority delegating system.

Zairi (1997) has named rules for business process management. The first rule deals with documentation; most important activities need to be properly mapped and documented. This means that at least critical processes in order to do business need to be modelled and described as a flow of activities, with links to other processes in the organization. Also all related documents, such as instructions, need to be included and must be kept up to date. Secondly, BPM directs the focus on customers through horizontal linkages between key activities. Customers and their needs are the goal of a process, and the process is structured to meet this goal in the most effective way possible. Customer satisfaction is one of the main objective

in BPM. BPM needs to be based on continuous improvement. This means continuous optimization through problem solving and avoiding partial optimization among the activities in a process. BPM calls for cultural change in an organization. Simply good systems and right structure in place aren't enough when trying to reach the goal, but there needs to be a process orientation in the organization and its culture to get everyone engaged.

The goals of process management, which aren't essentially different from the general goals of management, include better financial result, customer satisfaction, high productivity and the active input, good motivation and discipline of personnel. Process management helps organizations to identify areas for improvement. However, there doesn't exist just one path for improvement that meets every need, but often a combination of different paths is required. (Elzinga et. al. 1995; DeToro & McGabe 1997; Lee & Dale 1998; Ponsignon et. al. 2012). Huffman (1997) points out, that many organizations focus on a particular improvement strategy to the extent that it becomes 'the strategy of choice', excluding all others, when process management specifically encourages to utilize and combine a variety of approaches and techniques. DeToro and McGabe (1997) add that business process management gives a comprehensive array on improvement methods which helps from clinging into just "*new management fad*".

There are different drivers for adopting business process management. Armistead et al. (1997) mentions globalization, changing technology, regulation, the action of stakeholders and the eroding of business boundaries. In process management, it's important to make a clear distinction between the goal what to achieve and the strategy, how to achieve the goal (Nurcan et al. 2005, 629-630)

The basis for process thinking, improving and management is created through process modelling, often referred to as process description, which in practice means a process map or documentation showing all processes and their interrelation in the organization. Also, there must be an ability to model new processes, in order to be able to evaluate their performance. (Kohlbacher 2010, 136-137; Lin et al. 2002, 19; Trkman 2010, 132) Curtis et al. (1992, 77) list five goals of process modelling: to

facilitate human understanding and communication, to support process improvement, to support process management, to automate process guidance, and to automate execution support. Without process modelling it's impossible to reveal and solve problems in processes (Shaw et al. 2007, 94). Bandara et al. (2005) note in their article, that there is little empirical research on success factors of effective process modelling, even though the results might have significant impact on organization, its IT structures and implementing new processes. As a result of their multiple case study on process modelling success factors they list eight success factors for process modelling in two categories: project-specific factors, which are stakeholder participation, management support, information resources, project management and modeler expertise. Modelling-specific factors are modelling methodology, modelling language and modelling tool. A significant observation is, that modelling-specific factors seem to have less effect on the success of modelling project than stakeholder participation, management support or project management.

3.2 Basis for process improvement and success factors

There are several ways and scales in which process thinking can be utilized in a company; the right way is always dependent on the company (Küng & Hagen 2007, 486) Coskun et al. (2008, 245) have defined business process improvement (BPI) simply as a method of improving the way in which a discrete set of business activities is organized and managed. Lee and Chuah (2001, 688) continue, that BPI is a structured approach to analyze and continually improve fundamental activities of a company's operations by simplifying and streamlining business processes. The target, where BPI will lead to, is efficient and effective use of resources, such as facilities, people, equipment, time and capital (Zairi 1997). Generally process improvement can be considered successful, if it manages to reach the goals both during the improvement project and in the long run (Trkman 2010, 126).

Harrington et al. (1997) state in their book, that in the 1970s and 1980 process improvement was only used by manufacturing environments in order to reduce error rates and maximize productivity. Later the second wave of improvement was directed at improving administrative processes, which include e.g. marketing,

research and development, information systems, and accounts payable. They also state, that business process improvement (BPI) methodology is focused on improving administrative and support processes, not on manufacturing processes. They admit though, that the concepts can equally be applied to the manufacturing processes as well. (Harrington et al. 1997, 1; 22) Such division in concepts was not found elsewhere in literature, but it supports the idea, that BPI is a suitable methodology for improving also support processes, such as reporting and internal control.

There are many reasons for improving processes, but typically it's based on the gap between desired and achieved results, which is due to deficient performance and non-identified potential of the processes. Customer perspective should be considered as the key element, since improving customer satisfaction is behind the need to improve processes. Organizations must identify the price of process improvement, and balance it with the benefits gained from it, which include improved competitiveness, income, efficiency, or reduced costs. Process improvement should start with choosing the right approach for the organization in question, setting targets and communicating them throughout the organization, and using process modelling as a tool for identifying the structure, costs, duration, progress and possible risks for customer or employees of the process. It must be kept in mind that process modelling is a means to an end, not an end itself. Management's responsibility in process improvement is to actively lead and support the change, encourage the personnel to creative thinking and arrange the resources the improvement requires. (Shin & Jemella 2002, 352, 356; Paper & Chang 2005, 128-131; Attaran 2000, 797-798).

There are several obstacles to pass in succeeding in process improvement. Paper and Chang (2005, 124, 128) mention, that when pursuing process improvement, the focus is too often on process modelling and process maps at the expense of customer perspective. Management should be careful and lead the improvement project so that the focus is where it should be, and concentrate on the essential. However, in daily business life, managers often are under such pressures to make profit, that processes gets improved with the goal being only to reduce costs

(Coskun et al. 2008, 243). Third challenge arising from the literature are increasing national and international legislation and regulations, which also bring pressure to the organizations. Often the compliance might even be in conflict with the benefit of the customer. (Küng & Hagen 2007, 477).

Several techniques and models have been developed to improve the performance of the processes. It's recommendable though, to take a critical view on applying existing models as they are, and always remember the starting point and preconditions of the organization in question. Most of the developed models aren't meant to be universally applicable, and thus won't fit for every organization's needs as such. Lin et al. (2002, 19-20, 28-29, 33-34) constructed in their research a general structure for process modelling by comparing and analyzing existing methods, and selecting the most important features and aspects into their own model. From the analysis of methods, ten key concepts to be considered in identifying process, stood out: activity, behavior, resource, relation, agent, information, entity, event, verification and validation, and modelling procedure. Activity and behavior represent what happens in the process and in what way. Agent reflects, who delivers the process and to whom it's delivered. In addition the resources to achieve the event objectives need to be described. The interaction relations exist inside a process, as well as between different processes between actors, departments and flows of information and materials. Shin and Jemella (2002, 353) have categorized three strategies for process improvement: quick hits, incremental improvement and reengineering. Quick hits stand for easily achievable efforts with low risk, which provide immediate payback opportunities. Incremental improvement focuses on closing small gaps in performance and delivers small degrees of change that achieve small but meaningful results. Reengineering aims for dramatic results, and unlike the other two strategies, is a form of organizational change characterized by dramatic process transformation.

Process analysis is as essential part of process improvement. It includes drawing of process maps, gathering of financial and production data, analyzing of activity-based costing information, and frequently performing automated simulations. The goal of the assessment is to identify high-level process improvement opportunities,

such as eliminating bureaucracy, eliminating redundancy, evaluating activities for value-add, reducing cycle time, eliminating errors, standardizing, and optimizing supplier relationships. (Shin & Jemella 2002, 356)

One approach to improving processes is to determine, analyze and try to strengthen the weak points and possible bottlenecks in the process. Weak points are gaps in processes that will cause negative results in the future if they are not closed or strengthened within improving a process. Weak points can appear in all functional areas in the organization, such as supply chains, logistic systems, and financial processes. Changes in external factors, such as financial, sociological or political environment, may be the source of the weak points. According to weak point analysis and improvement model, processes and related sub processes are mapped and their weak points analyzed. After this, weaknesses are defined related to the importance criteria or degree within all processes to find out, which weaknesses are the ones that should be strengthened in order to get the most value out of the improvement. The value is compared to the costs of improvement, and thus the weaknesses to be improved and the order in which the improvements will be made are determined. In scheduling it's important to pay attention to the willingness of the employees to take part in the improvement of the action in question. (Coskun et al. 2008, 246-253; Trkman 2010, 130)

Paper & Chang (2005) establish a theoretical model for process improvement success factors based on business process reengineering (BPR) literature. Their model consists of five elements; environment, people, methodology, IT perspective and transformation vision. In the Figure 7 below, success factors related to those elements are presented.

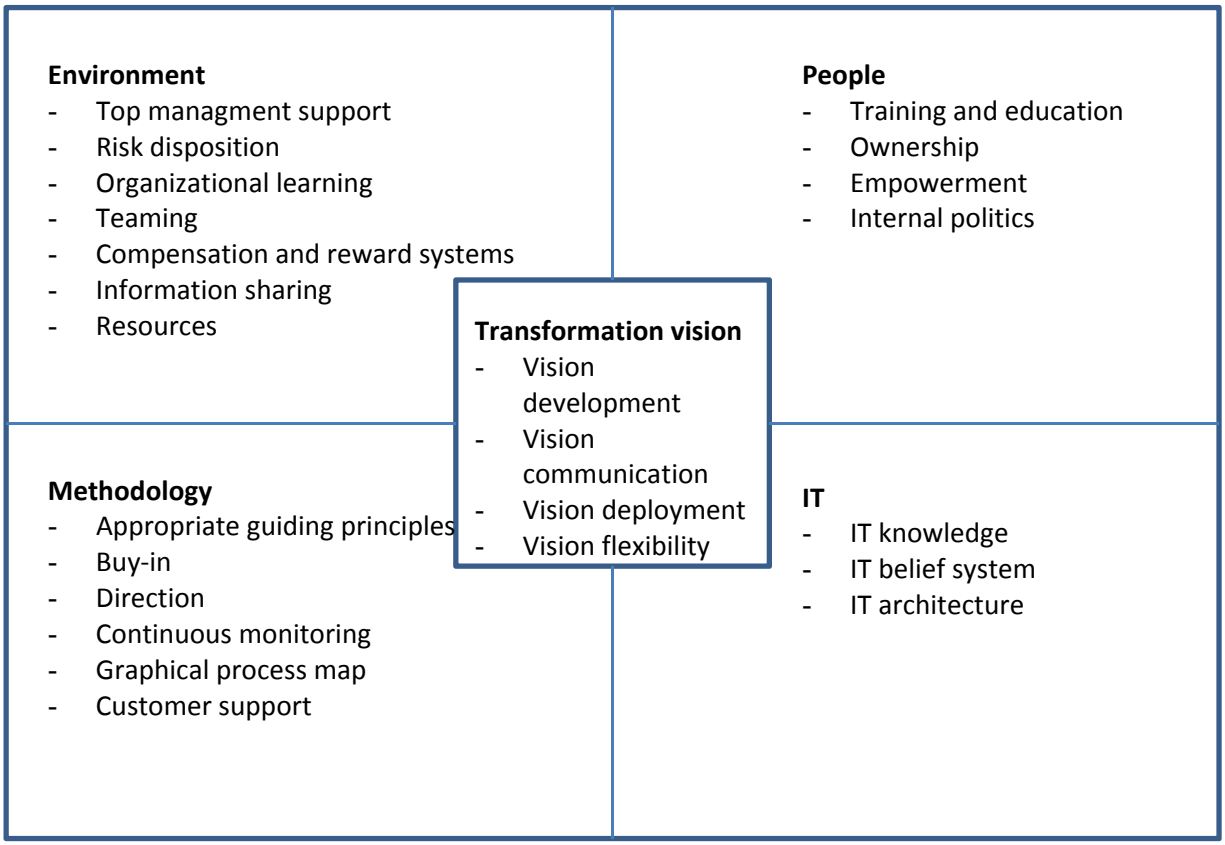


Figure 7. Critical success factors of process improvement (adopted from Paper & Chang 2005)

In Paper and Chang's model (2005), the central element is transformation vision, which binds the other four elements together. Top management has a critical role in process improvement, as they are responsible for creating the environment supportive of change, and thus affect how the organization reacts to success factors in other categories. (Figure 7) Each of these factors need to be in line with the transformation vision. However, it must be kept in mind that the critical success factors may change over time due to changes in business environment or internal organizational matters. Thus organizations need to stay active, and be able to meet the demands of new situation by changing also the focus and goals of their process improvement. (Trkman 2010, 126, 132) Many of these critical success factors have same elements as the principles of effective reporting process discussed in previous chapter, in section 2.3.

3.3 Previous research of the theme

Most of the studies regarding process improvement focus on manufacturing environment. However, this thesis will concentrate on processes of reporting and internal control, so the aim was to find such research which would focus on those subjects. Since there were only one such academic studies available, the scope needed to be broadened, and thus service industry was included in the thesis. There were three studies found concerning process improvement in the financial services industry, which are now being included in this thesis. This is because the processes of financial institutions are more information intensive, like the processes of reporting and internal control. In table 2, the most relevant studies are listed, and discussed in more depth below the table.

Table 2. List of studies regarding the use of process thinking in improving processes.

Year	Author	Topic	Research type	Main results
2007	Alles & Vasarhelyi	The need to reengineer the business reporting process	Qualitative	The current financial reporting process doesn't provide the information in the form the users could best utilize it, and needs thus to be re-engineered.
1996	Harkness et al.	Sustaining process improvement and innovation in the information services function: lessons learned at the Bose Corporation	Qualitative	Long-term growth and profitability results from continuous organizational learning rather than radical reconfiguration.
2007	Küng & Hagen	The fruits of business process management: and experience report from a Swiss bank	Qualitative	Processes can be significantly improved through the combination of process restructuring and the application of modern IT.
2002	Shin & Jemella	Business process reengineering and process improvement	Qualitative	Study provides guidelines for BPR projects in financial institutions.
2008	Cheng & Chiu	Critical success factors of business process re-engineering in the banking industry	Quantitative	Identification of four critical success factors of BRP implementation in the banking industry.

From the reporting perspective, Alles and Vasarhelyi (2007) examined in their paper the technological and economic forces that have fundamentally changed the

environment within which business measurement and reporting takes place, but have yet to materially impact the process of reporting itself. They state, that should financial reporting system be built from scratch today, it would look very different, due to the reduction in the variable costs of disclosures to technology-enabled firms, and to the dominance of market making by professional investors. Considering these two factors, the entire process by which financial data of the firm is translated into decision-relevant information by users must be rethought. However, as the paper concentrates on public, external reporting, the process reengineering should be based on legislation and regulations, and is thus a complex matter, where no simple, practical solutions are available.

Harkness et al. (1996) concentrated in their study on the process improvement conducted in the information services function in a case company, Bose Corporation. The information services function consists of administrative services and corporate information systems. From the internal customer feedback and complaints received arose problems, which proved that something had to be done. A decade long improvement of processes started, with several stages identified afterwards. As a result, in contrast to drastic revolutionary change they initially started with at Bose, gains in process improvement have been realized through an evolutionary and carefully managed program of learning, knowledge-sharing, experimentation, and cross-functional partnering.

Küng and Hagen (2007) did a case study in a Swiss bank regarding process improvement by using process re-engineering combined with the use of process-oriented use of IT. Four actual processes in the case company were selected, and as the outcome the cycle-time was reduced, output per employee was increased and quality of work products was increased. As the overall conclusion, the study shows that it’s possible to improve old, existing processes through BPM. Also, when using BPM to improve processes, there is no universal way to do it, but different performance-related aspects must always be considered.

Shin and Jemella’s (2002) case study in Chase Manhattan Bank attempted to provide guidelines that would help financial institutions to implement BPR projects

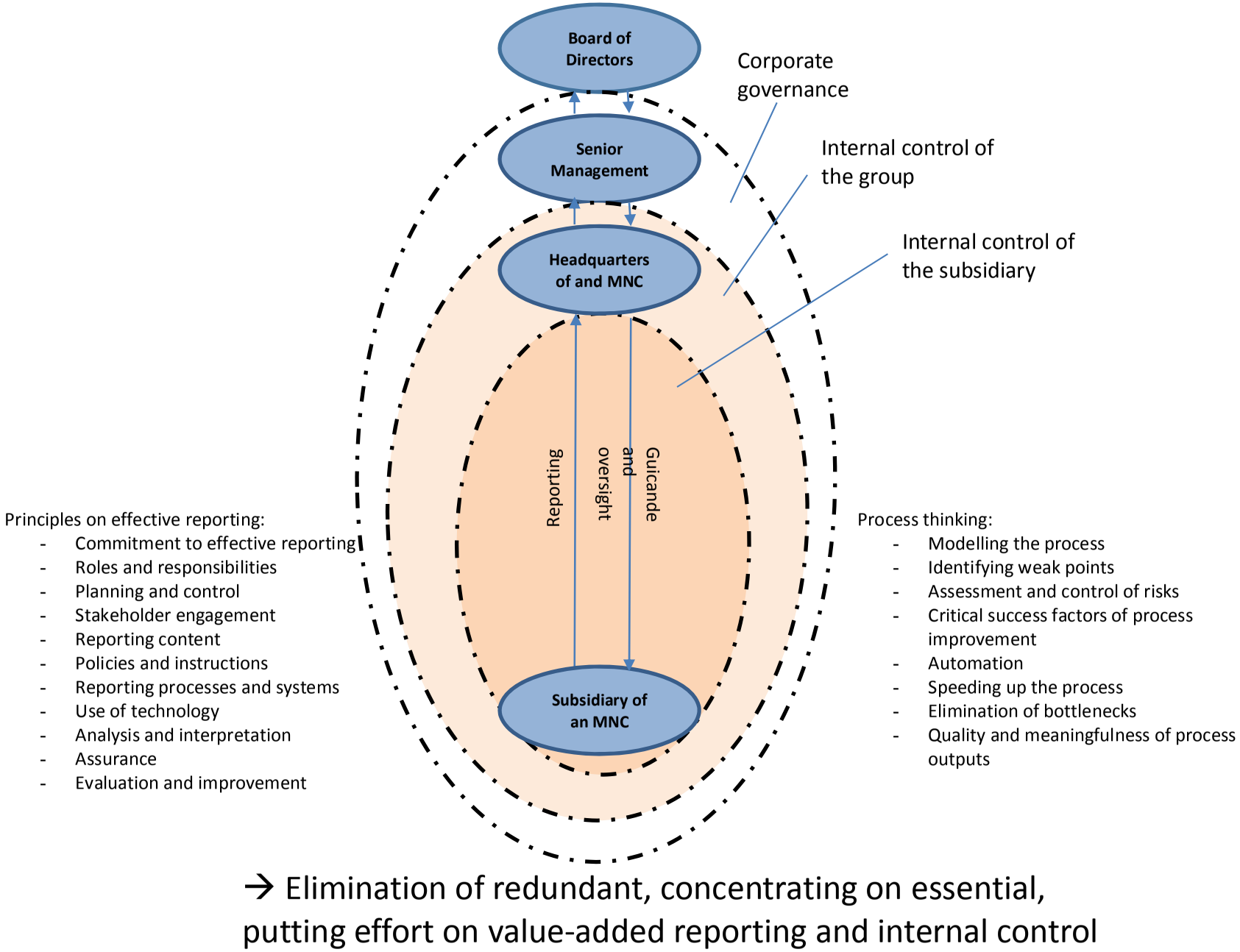
in pursuit of dramatic performance gains. The BPR project in Chase Manhattan Bank consists of four stages: energize, focus, invent and launch. Energizing is about organizing for project and writing a project plan. The next phase, focus, concentrated on making assessments on current process, organization and financials and IT. Inventing part is associated with thinking of ways to improve current process. The last part, launch, focuses on making plans to implementing the improvement ideas and identifying the benefits gained from improvements. As the result of the BPR project, the bank has been able to create new products and services to customer on top of substantial savings in costs and time.

Cheng and Chiu (2008) conducted a quantitative research in Hong Kong banking industry to identify critical success factors of implementing business process re-engineering. The four success factors identified were management commitment, customer focus, use of IT, and communication of change. Of these four factors, only customer focus had a significant relationship with firm performance, which is a consistent finding with the prior literature on successful re-engineering. When compared to general success factors of process improvement, identified by Paper and Chang (2005) and discussed in section 3.2, the factors are quite similar, though Cheng and Chiu seem to emphasize customer focus much more than Paper and Chang.

3.4 Theoretical background for empirical part

Theoretical background for this study is built on corporate governance in multinational enterprises, internal control and reporting, and process management and process improvement methodologies. Board of directors are accountable for organizing adequate corporate governance structure in the company. Top management is responsible for organizing and maintaining effective internal control in the company, which is a part of corporate governance. The core of the study is the internal control, which the headquarters in an MNC exercises, and which must be extended to include the foreign subsidiaries also. The flow of reporting goes from bottom to top, from subsidiary through headquarters and top management finally to the board of directors. On the other hand, from top to down, starting from the board of directors, and finally reaching the subsidiary after having gone through top

management and headquarters, the guidance and oversight is served. Process management and process improvement come into the picture, when trying to find ways to improve the internal control and the intercompany reporting from subsidiary to parent company. Even though process thinking was initially developed around manufacturing processes, there can be found ways to improve also administrative processes, such as reporting and internal control. When choosing and implementing different methods, the special features and the operating environment of the organization, and also the objectives for process improvement should be carefully regarded. With all this taken into consideration, a few key methods of process improvement have been chosen in this study. Also, principles for effective reporting adopted from IFAC, but altered a bit to fit this study, will be applied in the empirical part. Below in figure 8 is introduced the theoretical background for empirical part. It's built on the theoretical framework presented in chapter 1, Introduction, and broadened to include concrete methods arising from theory.



→ Elimination of redundant, concentrating on essential, putting effort on value-added reporting and internal control

Figure 8. Theoretical background for empirical part

The framework contains all essential elements of this study which will be covered in the empirical study. The concentration will be on reporting, guidance and oversight between parent company and subsidiary of a multinational corporation. Since the objective is to find ways to improve reporting and internal control, appropriate improvement methods will be utilized from process thinking. Also principles for effective reporting offer suitable framework for improving reporting process.

4. EMPIRICAL STUDY

Empirical study starts with case company overview, discussing background and motivation for the study and presenting research method and material. Next the intercompany reporting process in the case company will be analyzed, followed with the analysis of the case company's internal control. Finally improvement methods for improving internal control and intercompany reporting will be discussed, and main findings of the empirical study and their relationship to prior research pondered.

4.1 Case company overview

The case company operates in the field of technology industry. It offers products and services for customers operating in e.g. mining industries. It's headquartered in Finland, and has subsidiaries in the United States, Australia, South Africa, Russia and China. Company is classified as SME within Finnish standards and employs 134 persons worldwide. The company has grown significantly lately, as four of the subsidiaries have been established during last five years, and at the same time the turnover has increased 86 % The strategy of the company aims at expanding even more in the future, with both organic growth and acquisitions.

Decision making is centralized into headquarters. Board of directors holds the highest authority and decision making power in the company. The board appoints the president / CEO for the company, who leads the operational activities and is responsible for the performance of the corporation. The CEO appoints with the approval of the board a senior management team, which consists of experienced professionals in different fields, and each member is the director of a function in the company. Below is stated the hierarchy of the case company's top management.

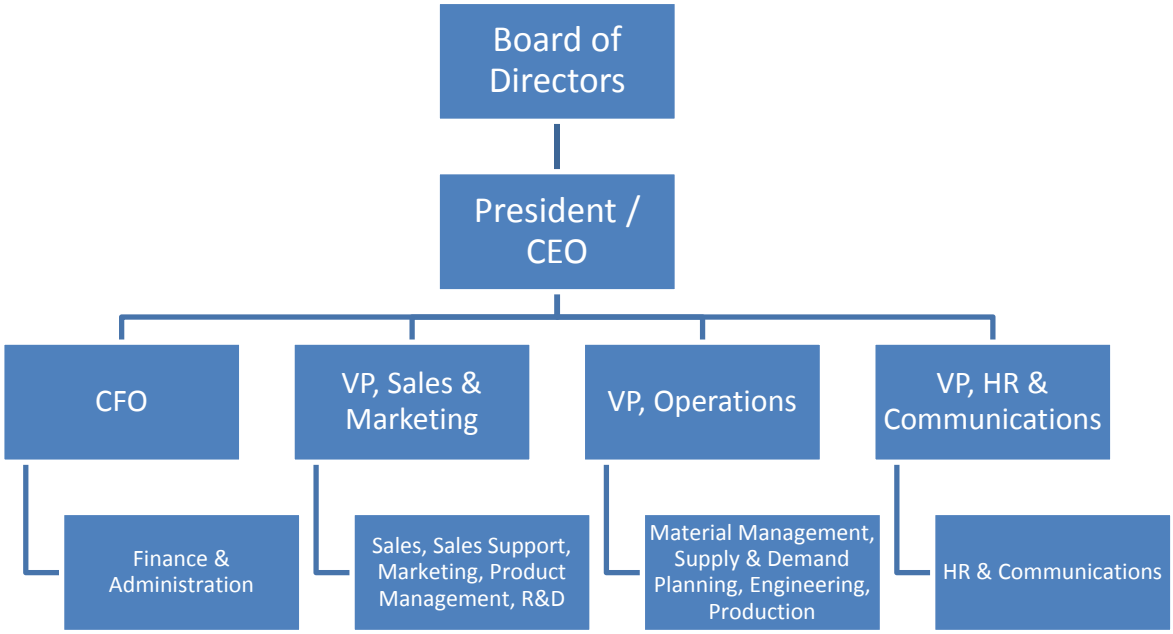


Figure 9. Case company organization of top management

Most of the functions are located in Finland, and serve the company worldwide; finance and administration, sales, marketing, research and development, product development, and operations. Subsidiaries are mainly sales offices, but two of them also have their own production unit. Four subsidiaries have an accountant/controller who is responsible for finance and administration, and one subsidiary has outsourced its accounting function.

There are 8 professionals working in the headquarters' finance and administration department; Chief Financial Officer, 2 Controllers, Group Accounting Manager, Accountant, Purchase Invoice Handler, ICT Manager, and ICT System Specialist. All of them have their own role in reporting and internal control, but CFO and Controllers hold the main responsibility for those issues regarding management accounting, internal reporting, and internal control, and Group Accounting Manager is responsible for financial accounting and external reporting.

The case company has already utilized process thinking in its operations for several years. This was primarily due to the ISO 9001 certification, which the Finnish parent

company has had since 1994. During the early years, the objective seemed to be just to fulfill the requirements of the standard, but more recently the company has truly realized the benefits of modelling processes properly, thus found the problems and bottlenecks in the processes, and tried systematically to improve the processes in order to function in a more efficient way. Also, from the management point of view, this has had a guiding effect; it helps the organization to understand, what is truly important and essential in the processes, and directs the actions to concentrate on that. At the moment the thought is, that the standard creates a base for the minimum requirements which need to be fulfilled, but on top of that, the company wants to develop even more, since it has been seen to benefit the business. All core processes in the company have been modelled, and improved if necessary. There is still some work to be done with modelling support processes, regarding e.g. financial accounting, reporting and ICT.

This thesis studies the intercompany reporting and internal control in the case company. More specifically, it concentrates on the intercompany reporting between parent company, and the subsidiary located in the United States. The US subsidiary is the oldest of the subsidiaries, as it was established in 2002, and has the most settled working procedures of the subsidiaries. There are several functions located in the US subsidiary; sales, marketing, storage, manufacturing and administration, and it employs 21 persons. The CEO of the subsidiary reports back to the CEO of the Group. From now on, the US subsidiary will be referred to as subsidiary.

4.2 Background and motivation for the study

The case company plays in the international field, as its markets are all around the world and it has subsidiaries in five countries. It is company's top management's responsibility to ensure active corporate governance and to organize adequate internal control. Also top management makes decisions affecting the whole company based on the information provided by each subsidiary, so the information must be reliable. Thus the parent company needs to set the guidelines for compliance for the whole corporation. As the company is planning to grow even more in the future, it's crucial to have an adequate internal reporting process and guidelines for internal control in place as soon as possible.

Internal control in the case company has never been managed as one matter, but the policies, instructions and actions have been separate and often nonrecurring with no monitoring or regular updating. Although process thinking is widely in use in the company, and all core processes are modelled, support processes related especially to management accounting and reporting, have been left without attention, and don't have process descriptions in place. The reporting from subsidiaries is not fully in a united form, which makes the interpretation of the reports confusing. Also the comparison of performance between subsidiaries is not reasonable at the moment, since there's no way to make sure that the items of the reports represent the same information. Many of the policies, instructions and intercompany agreements are outdated. Also there are problems in the flow of information and communication between the parent company and the subsidiaries. Another problem is that there is no common corporate ERP system in use in concern companies, but parent company and each subsidiary have a system of their own in use. Since the systems are separate, it makes the access to information and thus internal control and group consolidation tough, and also creates challenges to management accounting and reporting. At the moment the parent company has remote access to two subsidiaries' systems.

To tackle these problems, the board of directors and the top management call for a creation of a group level control manual, which contains all relevant information regarding internal control, e.g. group policies, process descriptions, instructions and reporting schedules. The manual will be a daily tool for employees at parent company, and in the subsidiaries as well. As the background material for the manual, a process for intercompany reporting and internal control needs to exist, and be carefully documented, on such a level that the same process can be applied to each subsidiary, the ones that already exist and the ones that will be established in the future.

4.3 Research method and material

The empirical material for this thesis was gathered by using interviews and participating observation, since they were most suitable methods when considering the subject of the study and the form of information regarding it. Interview offers

flexibility when gathering information, and lets the informants speak with their own words, and thus gives the researcher possibility to better interpret the answers. The interviews were carried out as unstructured interviews, in other words the researcher studied the thoughts, opinions and views in the order in which as they came across during the discussion. (Hirsjärvi et al. 2007, 200) This gives the informant the possibility to freely express themselves without constraints from ready-made questions, and the possibility to go deeper on essential issues. The problems related with unstructured interviews is that the design and implementation are time-consuming, and sometimes require multiple interviews in order to get all needed information gathered. With the help of interviews it's possible to find out, how the informants experience the situation and the events around them, but to find out what truly happens, must observation be included as a research method as well. With the help of observation, researcher can get spontaneous and direct information on the action and behavior of individuals, groups or organizations. The challenge in observation is the role of the observer in the community under observance. The observer should be close enough to not create such situation where the individuals under observance will change their behavior, but on the other hand if the observer is too committed to the community, objectivity might at risk. When the observer takes part in the action with the individuals under observance, and is part of the group, a term participating observance is used. When using this method should be kept in mind, that the researcher is able to make a clear distinction between the observations and their own interpretation of these observations. (Hirsjärvi et al. 2007, 199-212)

Since there was no prior documentation regarding the reporting process or internal control as a system, all data must be collected from concerned employees with the help of interviews and discussions. For the sake of this study, several employees of the case company top management, controlling, quality management, and subsidiary management and accounting were interviewed, please see table 3 below for more details. Each of the interviews lasted from half an hour to two hours at a time, and written notes were made on the basis of the discussion. No recording of the interviews was made in order to avoid the possible tension it might create between the researcher and the interviewee. In table 3 are listed the interviewees

by their title, company which they work for or are responsible for, education, the number of years they have been with the case company, and whether they are producer or user of the reporting information. The researcher herself is also listed, as her observations, thoughts, opinions and views are an essential part of this thesis. She works as a controller in the parent company, and her daily responsibility areas include management accounting and reporting, and internal control. Thus she is actively involved in the duties in the case company to which the topic of the thesis is closely related to.

Table 3. List of interviewees

Title	**Company**	**Education**	**How many years with the company**	**Producer / User of reporting information**
Controller (thesis writer)	Parent company	BBA	4	Producer and user
Controller	Parent company	M.Sc.	2	Producer and user
Chief Financial Officer	Group	Diploma in BA	13	Producer and user
President, CEO of the Group	Group	M.Sc.	6	User
Quality Manager	Parent company	Engineer	5	User
President, CEO	Subsidiary	EMBA	20	Producer
Accountant, Office Manager	Subsidiary	Accounting degree in college	9	Producer

The first step of the empirical study was a group interview with CEO of the Group and the CFO. In the interview were discussed the role of the top management in governance and internal control, the information needs related to decision making, the problems and risks in current reporting process, and the needs for improvement in current reporting process. Next phase was a control visit to the subsidiary, one major objective being to identify the need for internal control, and to understand the current situation with reporting. These were done with interviewing first the accountant of the subsidiary, who is in charge of reporting, and then the CEO of the subsidiary, in order to understand their role as the subsidiary of the group and their views on current reporting and the troubles in it. Also observation was a significant method of information gathering during the visit. With the information gathered so far, a process description, or a flow chart, of current intercompany reporting process

could be drawn. For this, several informal discussions were held with controller and CFO, and also the researcher participated with her views. On top of that, process modelling perspective was gained from interview with Quality Manager, who has been in charge for modelling the core processes in the company. Once the process description of inter-company reporting was done, it was analyzed to find out problems, bottlenecks and risks related to it. After that, the research concentrated on internal control of subsidiaries. Since there was no existing process in place, it had to be approached in a different manner. During interviews and daily observation, current control procedures were collected and analyzed. The last phase of the empirical part of the thesis was to find ways to improve intercompany reporting process and the internal control of subsidiary with the means of process improvement. The methods arising from the literature and chosen to be utilized in this study, were presented in section 3.4 in figure 8. The most important of those methods were modelling the process, identifying the weak points and thus assessing the risks and controls, and eliminating the bottlenecks. Also an analysis of the process with the model of critical success factors in process improvement was an important part of the study. As the result of this thesis, the case company will have a suggestion for improved intercompany reporting process and guidelines for creating an appropriate and effective internal control structure for subsidiaries. Below in Figure 10 is stated the progress of the study.

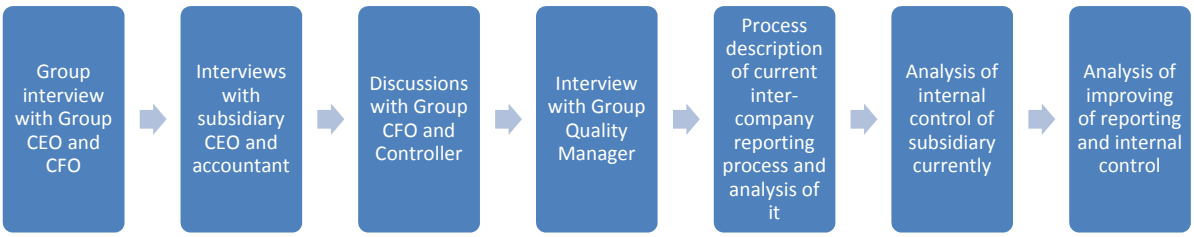


Figure 10. Progress of the study

4.4 Analysis of intercompany reporting process in the case company

The board of directors and the top management require several financial and operational reports regularly; weekly, monthly, quarterly or annually. As all reporting is done on group level, the data must be collected from each company. Controller

fetches, analyzes and edits the data of the parent company, and requires the same data from subsidiaries. After that, once all data is in one place and analyzed, group consolidation is done, final report checked and analyzed and delivered to relevant parties. At the moment reporting from subsidiary to parent company includes weekly sales report, monthly profit and loss statement (P&L) with balance sheet (BS) and year-end forecast, annual budgets with action plans, and year-end closing related reporting. This thesis will concentrate on monthly reporting, as it's seen as the most important form of reporting in terms of management decision making. Monthly reporting gives information, where the company has been (P&L), where it is now (BS), but also where it will go in the future (year-end forecast). The company has no corporate ERP system in use, and also no system for management accounting and internal reporting, so all the work is done on Excel spreadsheets.

4.4.1 Current intercompany reporting process

The starting point of the monthly intercompany reporting process is the requirement from the top management for monthly reporting package. The creation of the group reporting package is a responsibility of group controlling team. For the group report, a separate report from each subsidiary is required. Monthly reporting from the subsidiary's view is divided into two: external reporting required by local authorities, which must follow local legislation and regulations, and internal reporting required by parent company, which must follow the policies and instructions set by the parent company. The subsidiary in question has its own ERP system, which is set up to meet the local financial standards. As a result for the month, once all bookings are made in the system, there will be a P&L and BS according to local standards available. To make the internal report, the subsidiary accountant must manually reallocate the figures to meet the parent company demands, as there are difference on e.g. in P&L, on which item some costs belong, due to different accounting standards in use. Parent company has created Excel spreadsheets, where the figures are to be typed in. Once the P&L and BS are ready, the subsidiary starts to work on the year-end forecast, which consists of P&L items, and is to be made on a different spreadsheet. The forecast is done on a monthly basis, with actual figures until available, and the forecast for the rest of the months. As the basis for the forecast there is annual budget, which is created each year, but the idea of

forecasting is to make it more precise each month, so the top management will know ahead, what will be the profit at the year-end, and have time to make actions if necessary. The most important items in the subsidiary forecast are turnover, personnel expenses and other operating expenses. The forecast of turnover is based on sales forecast made by area sales managers. Once the forecast is done, subsidiary accountant will deliver the monthly reporting package to parent company by email. The package consists of P&L and BS in group reporting form, year-end forecast, local P&L and BS taken from subsidiary ERP, and some other printouts from ERP, e.g. detailed lists of accounts receivable and accounts payable. The schedule for the monthly report is always the fifth working day of the following month, so the subsidiary accountant always has the same amount of time to create the reports.

The work of group controlling starts when the reporting package is received from subsidiary. Controller transfers the figures from subsidiary report into group reporting spreadsheets, where there is comparison to budget and last year available. At this point the currency is also converted into Euros, since all subsidiaries make their reports in local currencies. Controller checks and analyses the figures, with focus on whether they are reasonable, and do they add up to the budget. This is done with the help of the actual figures of course, but also a few key performance indicators (KPI's), which are monitored in the company regularly. The most important KPI's for controllers when making variance analysis are COGS percentage, EBIT percentage, and equity ratio. Sometimes there are discrepancies or deviations from budget that need further investigation. They can be clearly typos, but large deviations may be also correct, and the reasons behind them must always be clarified. Since the ERP systems are separate, it's not possible for group controller to check for e.g. typos there, but all questions must be made to subsidiary accountant. In such cases, controller will contact the subsidiary accountant, usually via email because of the time difference between Finland and USA, and ask for clarification for the discrepancies and deviations. Subsidiary accountant will review the questions, give clarifications if possible, and reply to the controller the next day. If controller if contended with the clarification, the work can continue. Once the same procedures have been done to each subsidiaries' figures, the group report is formed

on the side automatically by the spreadsheet. As the last step, the reports are reviewed and analyzed by the whole controller team, including both controllers and CFO. Especially the team pays attention to the year-end forecast, and usually makes changes and fine adjustments. When the team is satisfied with the group reporting package, it's delivered to the board of directors and senior management team. The schedule for group reports is the 15th day of the following month. Below in figure 11 is presented the flowchart of current intercompany monthly reporting, drawn by the researcher with the help of interviews and own observations.

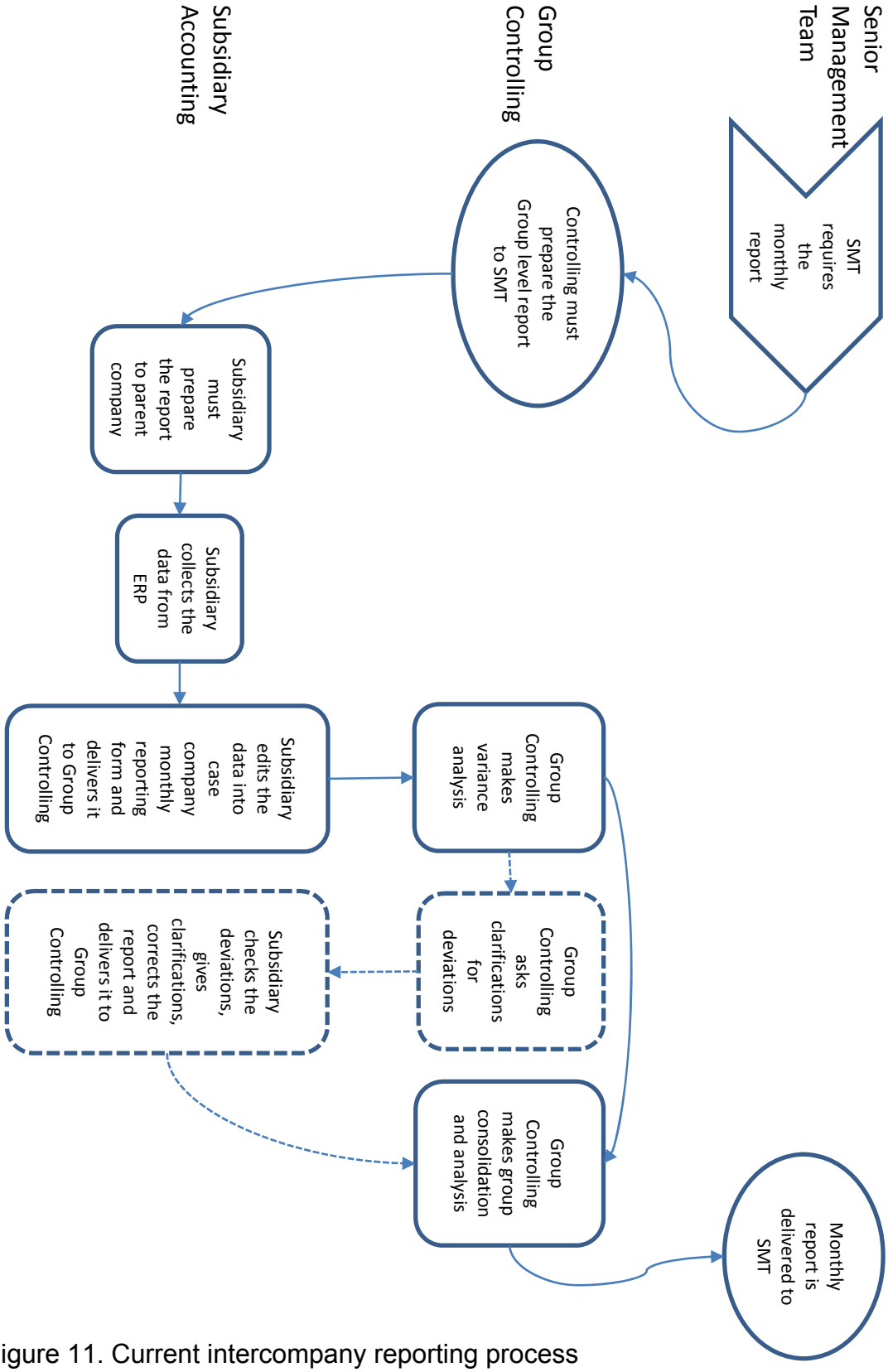


Figure 11. Current intercompany reporting process

The drawing of the process map is a good tool for illustrating processes. There can be seen all the parties participating in the process, and the progress of the process. The end customer of the process is top management, since they are the ones who use the reports in their decision making. Group controlling is both a producer and consumer of information; producer part relates to the fact that they compile the group report for the top management, consumer part deals with the fact that group controlling utilizes the information in the subsidiary reports. The subsidiary acts as a producer of the information only. When looking at the progress of the process, it can be clearly seen, that the process doesn't go in a straightforward manner, which slows the process down.

4.4.2 Problems with current reporting process; subsidiary perspective

The schedule with the monthly reporting package is considered tight as it is by the subsidiary accountant. This is partly because the accountant is not responsible only for accounting and reporting, but she also works as an office manager and HR manager, which require work in the beginning of month as well. Another issue is that there are several other reporting to be made during the same time frame; some of which are internal in subsidiary, and some of which are required by other functions in the parent company than group controlling. An example of subsidiary internal reporting is monthly calculation of commissions to representatives; another example of reporting to parent company is detailed inventory reporting required by operations. Hurry causes several problems; typos and mistakes are common, and especially year-end reporting gets done quickly without proper focus.

The monthly performance review, which is required by the CEO of the group from each company, consists of certain KPI's and written analysis of them. At the moment the subsidiary won't get the KPI data automatically from the reports, but they need to calculate it separately each month. This causes even more stress for the already tight schedule, as the performance review report is due on the third day of the following month.

Sometimes subsidiary accountant finds it hard to match the local reports of their own, coming from the ERP, with the group form of reports. This is because there is

no group level chart of accounts in use in the subsidiary, but they have account numbers and names of their own. Also there are many different types of items in the reports, which don't exist in Finnish accounting. The subsidiary accountant and president find it difficult to interpret the group form reports, and prefer to use the local reports for analyzing purposes.

Another problem is related with IT; since subsidiary has its own ERP system in use, there is no IT support available from the parent company. There is no IT person inside the subsidiary, but the key user is the accountant. If any changes need to be made regarding reporting, it requires the use of external service, which is often expensive and time-consuming, so changes cannot be made quickly.

4.4.3 Problems with current reporting process; group controlling perspective

Timetable is challenging for group controlling when drawing up monthly reporting package. Controller is responsible for not only collecting and analyzing parent company figures, but also the figures from each subsidiary, and consolidating them into group level figures. In accordance with current schedule, subsidiary is required to deliver their reporting package by fifth working day of the following month. Problems start with national, public holidays, which are different in different countries. So the fifth working day might be different in Russia than it is in USA. Thus controller needs to be alert, and check each month, when to expect the reports to arrive, and plan own working schedule accordingly. Obviously this is time-consuming. Another problem related to scheduling arises, when there are discrepancies or significant deviations from budget. It takes at least one working days' time to get the clarification due to time difference. This delays the compiling of the report, and takes time away from analyzing the group figures and especially year-end forecast. Often there is also a case where no explanation from subsidiary is available, and then group controlling must proceed with uncertain figures.

Physical distance makes matters complicated. At the moment no regular control visits are made to subsidiaries. Although issues can be discussed via emails, online video conferences or telephone, it's never the same as meeting face-to-face. Challenges arise from time difference; when to hold a telephone conference, or will

the urgent question be answered during Finnish business hours. Also, different currencies make matters complicated; comparing e.g. profit of US subsidiary to budget, the difference might vary between parent company and US subsidiary. This is because US subsidiary looks at figures in US Dollars, where as in parent company the budget is conversed into Euros with budget rate, which might differ from the rate with which the actual profit is conversed. This is significant, since the rates have been very volatile during last couple of years.

The part of the reporting package, which seems to cause most problems, is definitely the year-end forecast. Controller can often tell, that the subsidiary forecast has not been updated at all during the month, or in some cases the forecast figures are taken straight from the budget, even though it's public information, that there has been changes in e.g. sales forecast, which would have immediate effect on P&L. It's even not rare that the whole forecast is missing from the subsidiary reporting package, and has to be asked separately.

Separate ERP system creates its own challenges for group controlling. Since there is no access to the system, group controlling has no idea how it works, and how it's used. There is no way to control the use of the system, and group controlling needs to just rely on the monthly reports supplied by the subsidiary.

4.4.4 Problems with current reporting process; top management perspective

From top management's point of view, timetable of the monthly reports is a critical matter. They need the information as quickly as possible, in order to use is in decision making. However, at the same time they want to make sure, that the information they receive is reliable, so decisions won't be based on false assumptions. The problem is to find the appropriate level of information in reporting in proportion to schedule pressures. Top management also underlines, that the work load of subsidiary accountant and group controlling team must not become overwhelming.

To make the reports more easily utilized, top management calls for analysis of figures and reasons behind them rather than just displaying sheer numbers and

changes in them. Top management recognizes the problems with getting the well-prepared reports from subsidiaries, and will together with group controlling start to commit the subsidiary management to monitor their own activities through these reports. At the moment it seems, that not all subsidiary directors even take a look at their monthly figures, let alone forecast, which they should be helping to prepare. The year-end forecast seems to be very uncertain each month, and it's hard to make any reliable group-level forecasts based on doubtful figures from subsidiaries.

Top management requests for more transparency in the reporting. They wish that parent company would have access to the ERP systems of subsidiaries, and also such structure to the reports, which would allow them to see in a detailed level, what they need. In other words, the basic structure of the reports would be simple, containing only main items of e.g. P&L, which are Turnover, COGS, Personnel costs, Other operating expenses, Depreciation, EBIT, Financial costs, Taxes and Profit for the period. However, if they choose, they should be able to check e.g. other operating expenses at a detailed level, what it consists of. At the moment this is not possible.

Top management makes a performance review of the group and each separate company each month. However, comparing the reports from each company between each other might not give the correct picture of the company's performance, since it's not certain that the reports are comparable due to differing reporting forms. Thus the decisions made in the light of these reports might cause problems, should they not be based on same starting point.

4.5 Analysis of internal control in the case company

Internal control in the case company has started to draw attention of top management only during recent years in the scale that it should be considered. At the moment there exists no systematic internal control structure, but separate policies, operational instructions and control activities. Especially, as the case company has grown and established new foreign subsidiaries during last few years, and the aim is to expand even more in the future, it's utmost important to have an appropriate internal control structure in place. Internal control being such a broad

concept, this study has its focus on the internal control which the parent company exercises over its subsidiary, concentrating on the intercompany reporting and issues regarding it.

At the moment, the subsidiary has the some of the group policies as part of their everyday operations in use, such as transfer pricing policy and intercompany exchange rate policy. Then there are policies, of which they haven't even heard of, or seen a written document. The written policies and instructions would be gladly embraced by the subsidiary, as they would not need to ask for details separately when they come across, but to act according to the policy on their own. Also the intercompany agreements of fees, which affects the monthly profit of the subsidiaries, such as royalty fee or management fee, are outdated and signatures are in some cases missing.

Due to the geographic distance of the parent company and the subsidiary, it's not possible to have face-to-face meetings that often. Particularly important are the control visits which a controller or the CFO makes to the subsidiary, as it's possible to go through all topical matters and also to make observations of the subsidiary and how work is done there. Currently, such control visits take place every now and then; the last one was in December 2014, and the one prior to that in March 2011. The subsidiaries seem to have mixed feelings towards the control visits; on the other hand they feel that it's good to have someone over to discuss all current issues, but on the other hand they don't like some control actions, as they feel that their work is being mistrusted. The control visits have an unstructured form, with no uniform to-do-list available, but they have been planned case by case and depending on the features of the subsidiary.

As today the technology offers many ways for arranging meetings without having to physically be in the same place, they are also in use in the company. However, currently no regular meetings or discussions are held to address important matters. Previously there were regular control meetings arranged monthly via online video conferencing, but because of lack of time and resources, they were cancelled. The

subsidiary felt they were very useful in terms of support and communication, and group controlling team agrees.

At the moment group controlling has no access to the ERP system of the subsidiary. Thus there is no way to verify, that the reports they prepare and provide monthly, are truly based on the transactions booked to ERP. Also, there is no way of checking the access controls and segregation of duties.

All in all, the subsidiary requests for more guidance from the parent company. The guidance consists of comprehensive policies, clear and precise instructions and spreadsheet templates for reporting and regular online meetings for communication. Group controlling feels, that having a structure for internal control would help their work significantly, as there would be a fixed and predestined way for controlling the subsidiaries, of which both parties are aware. Top management, as being responsible for organizing the internal control in the whole corporation, are obviously in favor of fixing the internal control issues as soon as possible.

4.6 Analysis of improving internal control and intercompany reporting through process thinking

In two previous sections the current situation of intercompany reporting and internal control in the case company was described and analyzed. In this section, selected methods of process improvement will be considered when trying to find ways to improve the reporting and internal control.

4.6.1 Process modelling, weak points, bottlenecks, and risks

The process modelling of current reporting process was done on the section 4.4.1, where current reporting process was described. The process starts with top management requiring the monthly report, which creates the need for group controlling to create a group level report for top management. This in turn creates the need for subsidiary to prepare their report to parent company. For the report, subsidiary collects the data from ERP system, and edits the data to fit into the case company reporting form. Until this point the process runs smoothly, with only risk

being the fact that since group controlling team has no access to subsidiary ERP, there is no way to verify the correctness of the data they deliver, but just need to rely on the reports. But when moving forward, problems can be seen ahead. Subsidiary delivers the report to group controlling, who make the variance analysis. In case there are deviations found in the subsidiary report, group controlling asks for clarifications for them. Subsidiary checks the deviations, gives clarifications, and delivers the new report to group controlling. This is creates a clear bottleneck, since the process isn't progressing in a straightforward manner. This is primarily due to the fact that no sort of analysis of figures is done in the subsidiary. Further, the subsidiary doesn't get the data for monthly performance review required by the CEO of the group automatically, but they need to calculate the KPI's each time separately. The bottleneck in the process causes more work for both group controlling in the parent company, and the subsidiary, and slows the process down. It takes time from the already tight schedule, and can thus lead to more errors or too hasty conclusions made on the basis of analysis. This problem requires a change in the process, and the solution would be to start requiring a variance analysis and clarifications for the possible deviations from the subsidiary automatically. In practice this would mean, that the subsidiary creates new form for reporting in cooperation with the group controlling team, which includes comparison to the budget and the KPI's readily available. This will be done on local form of reports, as the subsidiary is more familiar to work with them, and thus can make more precise analyses. Budgeting process will also get easier, as the subsidiary will have comparative information of the current year and the budget of the last year readily available in their local reporting form. From group controlling point, this will mean temporarily more work, but the team is confident the work will pay off. Group controlling team must work closely with the subsidiary when creating the new reporting form. Also, group controlling will need to do some automation for the group consolidation form, as from now on, the data coming from subsidiaries, will be in different forms from each subsidiary. Since there is not the group chart of accounts in use in the subsidiary, and changing the current one in the system to the group one would be expensive and time-consuming, the most important thing is to create a proper chart of equivalence of the accounts in use. In practice this means, that there is an equivalent account for each account subsidiary uses in the group chart of accounts, and it's documented and updated

regularly. But once the process is properly mapped, and all documentation is available, the effort should not be overwhelming. The rest parts of the process, where group controlling makes group consolidation and analysis, and delivers the prepared report to top management, run smoothly with no improvement targets in them.

Another weak point in the process is the lack of internal control over the subsidiary reporting. Since the ERP used by the subsidiary is a completely separate system from the one used in the parent company, there is no way for group controlling to ensure that the reported figures are based on the bookings made in the ERP. There is a simple solution to this problem; to set up a remote access from parent company to subsidiary ERP. From technical point of view, after a brief consultation with company IT Manager, setting up such access is easy and doesn't require much resources. Having a remote access to the subsidiary ERP might have other advantages in the future, besides internal control; group controlling could start to identify ways to automate the reporting from the ERP, which would serve all parts of the reporting process. Of course, in order to effectively implement internal control with the help of ERP, or to be able to create automation to reporting, one must be familiar with the system, which requires resources in the form of travelling to subsidiary and training partly with the help of subsidiary staff, and partly with ERP company experts.

One major issue regarding reporting is to unify the schedules, since at the moment it creates confusion and doesn't serve any part well. All the reporting which the subsidiary prepares at the moment, must be identified, its necessity assessed, and decisions made based on that. If the report is truly necessary, the preparation of it will continue, and if not, it will be terminated. Once the necessary reporting is covered, then a reasonable schedule can be created.

The weak points discussed above are all causes for possible risks, which if realized, might affect top management decision making. The number one risk is unreliable information provided by the subsidiary. If the figures in the reports are incorrect, wrong assumptions leading to wrong actions might follow. Another major risk is the

analysis of the figures; if the cause for a deviation in figures is analyzed wrongly, again there is a risk that wrong assumptions leading to wrong actions might be made. That's why it's important that the analysis of the figures is done by the person who knows what's behind them, which also supports the fact that the responsibility for analysis will be given to subsidiaries regarding their own figures. One key risk is related to organization. Since the corporation is rather small, there is one person in each subsidiary, and a few persons in the headquarters who do all the reporting related work. Should someone from these key persons leave the company, it would be a disaster to the organization, since all the knowledge at the moment is so called tacit knowledge, which exists only in persons' minds, and is not documented. Thus the documenting of the processes and all related instructions and other material is so crucial.

4.6.2 Principles for effective reporting

IFAC (2013) has created principles for effective reporting process. Those principles, with some modifications made to better fit this thesis, were presented in section 2.3, and are now analyzed reflecting the empirical observations in the case company. Many of the principles identify with the critical success factors, which are discussed in the next section, 4.6.3.

The principles for effective reporting are based on top management's commitment. On top of resource allocation, management should be the party making decisions regarding the form and contents of the reporting, as they are the key group to utilize the information from the reports in their decision making. Top management needs to determine the roles and responsibilities in the reporting process. Group controlling needs to be involved here as well, since they are the ones who actually make the reporting, so they know best who should be in charge of what. Planning and controlling the reporting process needs to be done carefully before any attempt of implementation. Drawing a map of the intercompany improved reporting process is a crucial part of planning. In the process map risk points need to be identified, so proper controls can be put to place. Reporting content needs to be determined, together with the stakeholders who will be using the information. Basically the stakeholders in this case include top management, group controlling and subsidiary

management and accountant. Management should be the party to tell what the contents should be from their point of view, and group controlling and subsidiary accountant are the ones to tell what information can be reported and what resources are needed in order to do that.

Policies and instructions create the basis for implementing the reporting process. They give guidance for employees creating the reports in order to function in a way that they are supposed to. Technology and systems are an inseparable part of modern-day reporting. When pursuing improvements in reporting processes, systems and technology play an important part. However, usually changes in those require a substantial amount of resources, and will also be time-consuming, and this thesis will concentrate more on smaller-scale improvements. Analysis and interpretation are major parts in refining the numerical data of financial reports into valuable information to be used in decision making. This is one of the most important parts of the reporting process where the case company will focus on in the future. More analysis and conclusions must be alongside with the figures in the reports to make it easy and prompt to find the essential. Assurance is the part of reporting process where it's made sure that every part in the process is done as they are supposed to. This needs constant monitoring, and when deviations are found in the process, actions to correct them are done immediately. Evaluation is also a continuous part of the process, as the efficiency of the process needs to be evaluated constantly. Continuous improvement is also a target for the reporting process, since the improvements made today might not be enough tomorrow, so the performance of the process needs to be constantly under observation.

4.6.3 Critical success factors

The critical success factors of process improvement were presented in section 3.2, and the most relevant factors related to this thesis are analyzed here. The factors discussed here were chosen when considering the nature of the process, and the features of the case company. Those factors, which were considered irrelevant in regards to improving the intercompany reporting process, were left out. The success factors are divided in five categories: environment, people, methodology, IT, and transformation vision. As with the principles for effective reporting process, the most

important feature and the true starting point of successful process improvement is top management support, which is categorized in the environmental features. Top management needs to be engaged in and in favor of process improvement, since they make decisions regarding resources and prioritize the projects to be carried out. In the case company this means careful consideration in the group controlling team, how to make sure that top management is properly aware and engaged into developing reporting and internal control, to ensure that enough resources are received in order to make the necessary changes. Organizational learning and teaming are also important environmental features, and the case company should engage enough employees from different functions of the organization and also different subsidiaries, to ensure that all relevant issues are considered in the improvement process. People perspective of success factors emphasizes also engaging employees in the development project, to see the significance and exercise responsibility, and thus be committed to the process improvement. Particularly important is to include subsidiary management and accountant, to make sure they fully understand the reasons behind changes, and comprehend, that the new process will help them with performance reviewing and thus managing the subsidiary, which will help should there be any resistance to change. Training and education are naturally needed during the change, to ensure enough competence in the new process. Also communication of what's happening throughout the organization is important for employees to have an open attitude towards the new process, as people tend to fear a change. Internal politics belong to people perspective, which in the case company is seen as one key element in improving the internal control within the company. The element of methodology is about appropriate guiding principles, direction and process-map, which are all interrelated. In practice this means that the principles guide the whole transformation, and with the help of the principles, top management is able to direct the change by e.g. setting performance goals. Direction can in turn be formalized in the form of a process map, which illustrates progress of the process, as well as the responsible employees and related resources.

All these above mentioned success factors should be carefully considered, when planning and implementing the process improvement of intercompany reporting and

internal control in the case company. The aim is to involve top management, and subsidiary management and accountant, to make sure that the change will be successful.

4.6.4 Improvement actions

The most urgent issue in case company is to get the basics regarding internal control in order. After that, there is a possibility to construct an internal control system to cover the whole corporation, but that's in the future. The most essential improvement action in the case company today is to raise top management's knowledge and recognition of internal control and especially their part in it. They need to realize, that exercising internal control is an inseparable part of their decision making process and they need to make sure that the control is adequate to ensure reliable and sufficient information in the form of reports in an appropriate time frame. Top management needs to be able to make a risk assessment regarding reporting. The risk of incorrect information needs to be minimized, since basing decisions on faulty reports might lead to bad decisions and thus endanger the future of the company in the worst case scenario. The fact that the case company is a multinational corporation, needs to be taken into consideration here, since it makes the matter of internal control more complicated. Internal control cannot be aimed only at parent company, but it needs to cover the whole corporation. The basic structure of internal control needs to be on such a general level, that it can be applied to each subsidiary as such. Possible country related exceptions need to be evaluated case by case.

Next on the improvement agenda would be to determine roles and responsibilities in implementing internal control. On the corporation level, one person should be appointed, preferably in group control team, to be responsible defining and planning the internal control structure together with the top management, to implement the decided measures, to monitor the state of internal control continuously, and to report back to top management of their findings regarding internal control. The defining phase starts with the assessment of the control environment. This needs to be done separately in parent company and each subsidiary, since they have such unique features due to the culture and country they are located in. To make such

assessment, the person in charge of internal control needs to visit each subsidiary, in order to be able to truly enter into subsidiaries' special features affecting internal control. After the separate assessments are done, conclusions can be drawn regarding the whole corporation, which create the starting point for the group's internal control environment, and define the scale and scope of internal control needed. Then it's time to plan the structure of internal control. The planning should result in a process map of internal control processes, which helps in communicating the structure of internal control throughout the organization, and increases the level of understanding. When it's time to implement the internal control structure and control activities, it demands another round of visits to all subsidiaries, to make sure that the concept of internal control is correctly comprehended, and that the employees in the subsidiaries know what is expected of them. The monitoring part also requires travelling, in the form of annual control visits, during which it's ensured that the structure still applies to the current control environment, and that the control activities are carried out properly. In addition to control visits once a year, monthly control meetings via online video conferencing will be introduced. In those meeting all current issues will be covered, including latest reports supplied by the subsidiary. Thus those meetings should be scheduled to take place as soon as the subsidiary prepares the monthly reports, and when group controlling team starts to work on them, to get their views and discuss their analysis based on figures to get the big picture behind the reports. The controller with internal control responsibility will prepare a report annually for top management consisting of the state of internal control, changes in control environment and control structure and the functionality of the control activities. Should there be major deviations during the year, they will naturally be reported separately.

Current intercompany reporting process is not efficient, and does not provide the information which top management needs for its decision making. While the subsidiaries concentrate only on getting the figures on the reports, and make the year-end forecasts if they have time, with little effort, they miss just the essential what the top management calls for; emphasis on analysis of past figures and on credible forecasting of the future. This difference needs to be addressed to the subsidiary, together with the process map of the new reporting process. The starting

point for improving the reporting process was the current reporting process map and the analysis of it, the problems addressed by the subsidiary, group controlling team and top management, and the information needs of top management. The analysis of the current reporting process and improvement targets in it was done in section 4.6.1, and the methods used to assess the improvement targets of the project were discussed in sections 4.6.2 and 4.6.3. After all the analysis, a process map for new, improved process was prepared. The essential differences compared to the old process is that the subsidiary will make the variance analysis, that is, to compare the actual figures with the budgeted figures, themselves, and if there are deviations found, subsidiary gives clarifications for the deviations by giving the reasons behind them and whether they are one-time events or permanent, occurring each month. These should be reflected in the figures of the year-end forecast as well. Another new step in the process is the review of the reports with subsidiary management and group controlling. Under special scrutiny are the analysis of deviations and the factors behind the figures estimated in year-end forecast, since they are the most crucial regarding top management decision making. After review, group controlling edits the data into case company form, makes group consolidation and analysis, and delivers the report to senior management team. The benefit of the new reporting process is the removal of the bottleneck, which is due to subsidiary making the variance analysis of their figures instead of group controlling, and the clarification of deviations automatically, not after separate request. This makes the process run more smoothly, and saves time. Another benefit is the background information for figures and analyses received from the control meeting via online video conferencing, where the reports are reviewed together with subsidiary accounting and management. Thus group controlling can also make sure, that the subsidiary management is aware of their performance, and is involved in the preparation of the forecast, which improves its credibility. The flowchart of the improved intercompany reporting process is presented in figure 12 below.

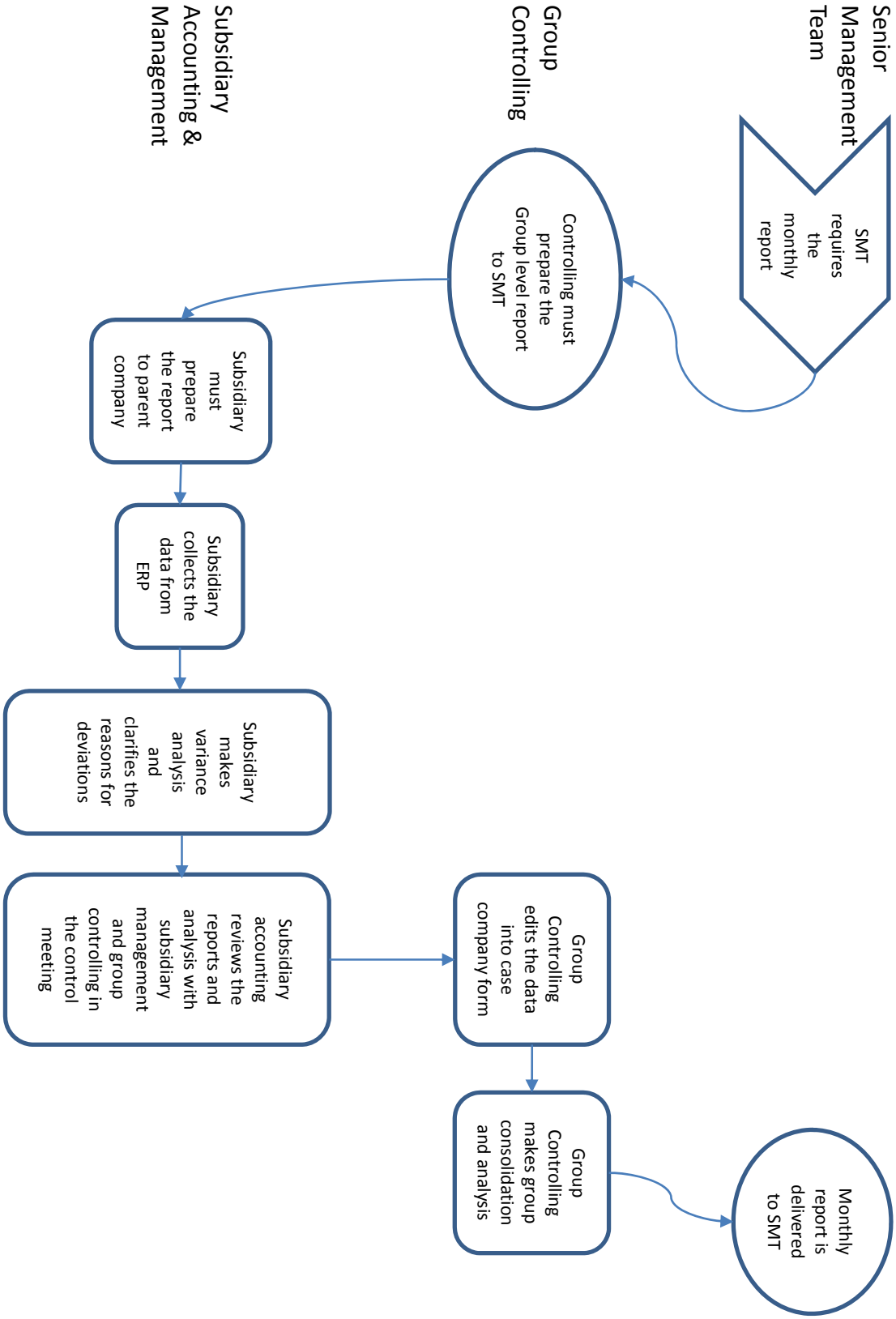


Figure 12. Improved intercompany reporting process

The most important practical issues when implementing the new reporting process include thorough training of how the reports are prepared, and making sure that the idea and objectives of reporting are understood. This requires a group controller to prepare comprehensive instructions, and to visit the subsidiary and go through each step of the process flowchart in detail, e.g. matching of the subsidiary accounts and case company group accounts. It's also necessary for the group controller to see how the data for the reports is collected from the ERP system.

The compiling of the control manual is high on the priority list. Most data to be included in it already exists, some is outdated and needs to be updated, and some needs to be created from scratch. The most essential of the contents related to this thesis includes accounting related policies, instructions and templates, process maps, control actions and reporting schedules. All these issues need to be approached from the MNC perspective, and they need to be on such a general level that they can be applied to each subsidiary. Surely there might still be some exceptions regarding the regulative environment of a subsidiary, but they need to be considered separately. Other topics in the manual will include general issues, such as mission and vision and organization charts, administrative, IT and legal issues. Once the first draft of the manual is ready, it needs to be implemented in each subsidiary. This could be done during a control visit, to make sure that everything is correctly understood. In the future the manual should be kept up to date continuously.

Larger changes requiring much resources, but that could be executed quickly, which the company might want to consider in the future, include automating reporting from subsidiary ERP. For this, a data warehouse system might be needed. From the long-term perspective, a more reasonable solution would definitely be implementing a corporative ERP system, which would be common and same for each company in the corporation. It would simplify intercompany operations, and reporting would be in uniform. However, such a project takes a few years to plan and implement, and requires a substantial amount of resources, but in the long run the benefits would surely exceed the costs. Another long-term action would be a creation and implementation of a corporate internal control system, which also requires a lot of

resources, but at the moment the case company should concentrate on getting the basic issues regarding internal control in order. Regular global control conferences are also something that the case company should consider in the long-term perspective. It would be beneficial for all the personnel related to accounting and reporting from each corporate company to get together on a regular basis to discuss current topics and deepen their understanding of the corporation and its way of working.

In the figure 13 below, the improvement actions are presented, divided in four categories. The horizontal axis represents the resources the action requires, and the vertical axis the time perspective that the implementation of the action would take.

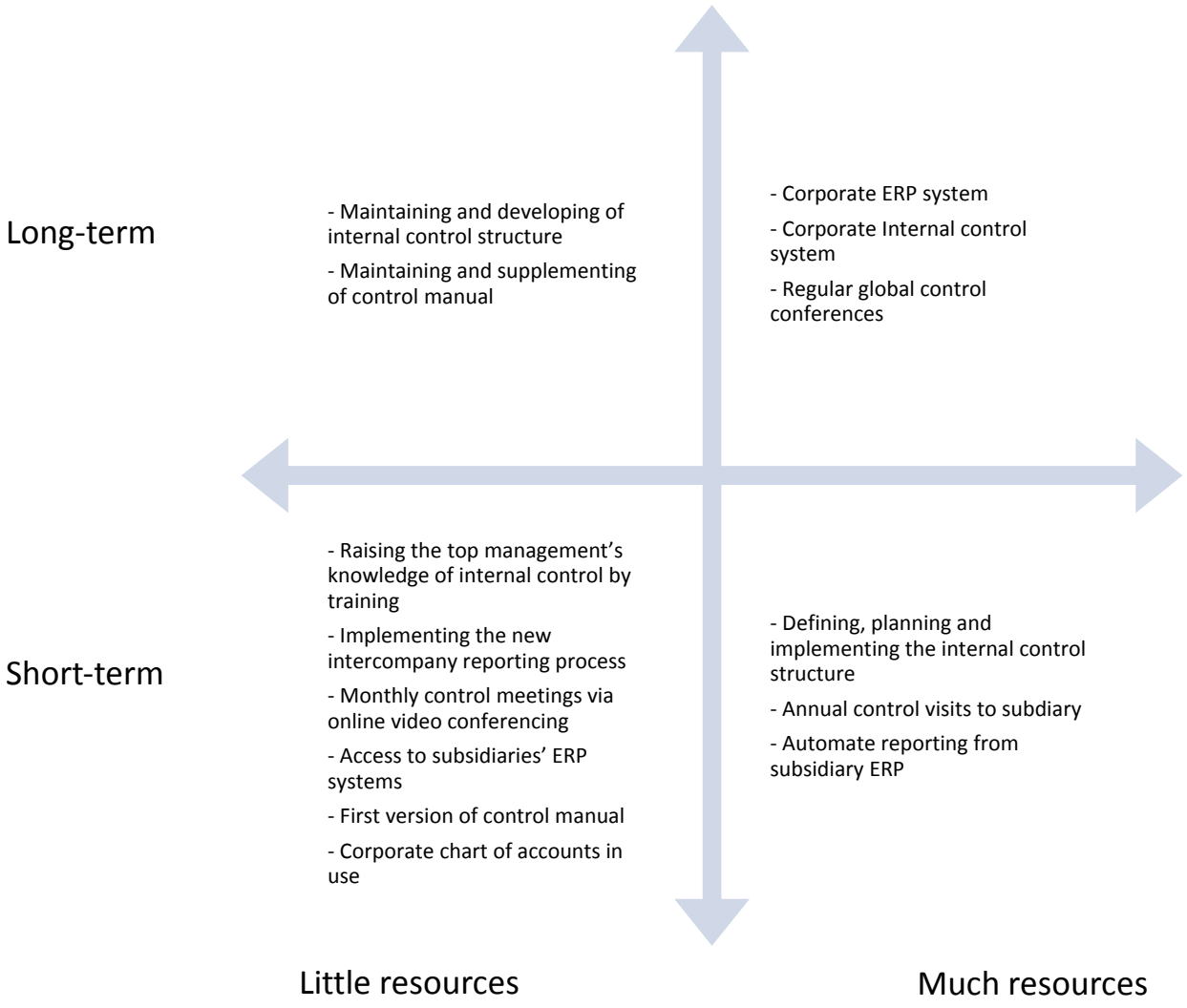


Figure 13. Improvement actions in the case company internal control and reporting

The actions in the short-term perspective, requiring little resources, are the ones where the case company should start with. Fortunately there seems to be most of those in the figure 13, so the case company should be able to make significant changes with rather small effort. The actions with long-term perspective, but requiring little resources, are maintaining and keeping up to date the internal control structure and the control manual. From the short-term perspective, requiring much resources are defining, planning and implementing the internal control structure, annual control visits to subsidiary and automating reporting from subsidiary ERP system. Top management of the case company needs to be confirmed of the importance of these issues, in order to get the resources to implement the actions, since they can be implemented in a short amount of time. In the future the top

management should consider the value of the actions listed requiring much resources, and having a long-term perspective. But first the basic issues need to be in order.

When analyzing the actions in relation to their effectiveness, the most significant issue is to raise top management's knowledge of internal control and their role in it. This is the starting point for all other actions, so this is where all efforts to improvement should start. After this, the second effective thing would be the implementation of corporate ERP. From reporting and internal control perspective, this would have a huge impact on ensuring uniform information, automating reporting, and controlling the use of ERP in subsidiaries. As said before, such system changes require careful planning, and the whole project with implementation will take a few years to accomplish. Next, the third effective issue would be to build a corporate-wide internal control system. However, an internal control system cannot be built from scratch right away, but a lot of groundwork needs to be done before that. Thus the next issue to be emphasized is to start the monthly control meetings even though the new reporting process is not yet implemented, so that group controlling will be up to date on the situation in the subsidiaries. Following thing is to get the control manual ready to be implemented, together with the new reporting process, since both implementations require travelling to subsidiaries, so they could be done simultaneously. With these efforts the most critical deficiencies in internal control would be taken care of, and the internal control would be on acceptable level to start to work on building an internal control system.

4.6.5 Main findings and their relationship to prior research

The most important finding of the empirical study was that process management includes applicable methods for improving the reporting process and internal control in the case company. As more recent literature related to process management suggests, it can be utilized in other fields besides manufacturing as well, and according to Küng and Hagen (2007), Shin and Jemella (2002) and Cheng and Chiu (2008) significant improvements can be achieved also in information intensive processes with the means of process improvement. The advantages of the methods include systematic progress of actions, identifying of improvement targets with the

help of process modelling, increasing the understanding of the whole process among employees, and assessing the improvement actions with the help of critical success factors of successful process improvement. This finding is in line with e.g. Curtis et al. (1992), Shin & Jemella (2002), Paper & Chang (2005), Attaran (2000), and Cheng and Chiu (2008).

In improving processes the most essential issue is management awareness and commitment, which also Paper and Chang (2005) underline in their study of critical success factors of process improvement. Other important issues in successful process improvement, which appeared in the empirical part as well as in the literature, were employee empowerment (Paper and Chang 2005; DeToro & McGabe 1997; Prior-Smith & Perrin 1996), training and education, communication (Paper & Chang 2005), documentation (Paper and Chang 2005; Zairi 1997) and monitoring (Paper & Chang 2005). The progress of process improvement in the empirical part follows the pattern which Perrin and Smith (1996) present in their study; identification of key processes, documentation of key processes, measuring the effectiveness of the processes, and improving the processes.

As mentioned in the empirical study, to make sure the effectiveness of the processes now and also in the future, on top of quick improvements the organization must adopt a mindset for continuous improvement. This will also help with concentrating on essential, as improvement actions are done in particular order, one at a time. The same findings were made by Zairi (1997) and Harkness et al. (1996).

Another important aspect of implementing process improvement methods is the fact that process management literature recommends to investigate several process improvement methods, modify and combine them if needed, to achieve the right methods for the processes and the organization in question (e.g. Huffman 1997; Detoro & McGabe 1997; Küng & Hagen 2007). This was also observed in the empirical study; the features of the case company and the characteristics of reporting and internal control processes require means for continuous improving rather than merely quick, one-time improvement actions, since both processes are complicated and complex.

The frameworks and guidance for internal control and reporting seem to suit well to be used also on a narrow part of the subjects, although they are usually designed for comprehensive implementation. This is enabled by the fact that the guidance is usually on such a general level. The internal control framework, presented in a process cycle by COSO (2006) determines the general guidelines, what are the main actions and in which order they should be executed, in order to create and maintain effective internal control. These guidelines were used when analyzing the improvement of internal control in the case company, and they fit well for that purpose. The principles for effective reporting process, introduced by IFAC (2013), include general instructions of the characteristics that effective reporting process should contain, and they were used when considering improvement for the current reporting process in the case company. Some modification needed to be done in order to make the principles fit internal reporting instead of external reporting, but generally the principles gave a good target for what good reporting is constructed with.

All in all, the most essential findings arising from the empirical study seem to be in line with prior study. No surprising results came up, and nothing was in conflict with the findings in previous research. When it comes to process thinking, it might be due to the fact that process thinking was employed as a general way of thinking, and several methods and models were combined to produce the framework which best fit the context.

5. SUMMARY AND CONCLUSIONS

Companies strive to do business among accelerating competition, as the globalization has brought the markets closer together. In order to survive and prosper in such environment in the long run, the companies need to ensure adequate corporate governance and internal control. Today the top management of the company are also under pressure from various directions to organize adequate governance structure, so there's no way it can be left unnoticed. Effective internal control is associated with each function in the company, but this thesis concentrated on the objective of ensuring reliable financial reporting. This is hence the top management needs absolutely trustworthy information in its decision making, in order to make right decisions to ensure the success of the business today and in the future. Internal control and reporting are closely interrelated terms; there needs to be effective internal control to ensure reliable reporting, and on the other hand there needs to be reporting to ensure effective internal control.

The objective of this study was to find ways to improve internal control and intercompany reporting with process thinking in a multinational corporation. The qualitative study was conducted in a case company, with interviews and participating observation as methods for data collecting. Though process management has traditionally been related to manufacturing environment only, there are recent studies showing that it can be applied to information intensive processes also. The benefits of process management include thorough investigation of the background, precise upfront planning, demonstration of processes with flowcharts, and systematic progress of actions. Process management helps in understanding, what actually happens in the process, and points out the parts which need improvement. What must be kept in mind is that even though there are several methods and models of process improvement available, they extremely rarely sit to an organizations needs as such, but should always be adjusted and combined in order to find the best means which match the special features of the organization and the processes in question.

The aspect of an MNC brings another angle to the study. A multinational corporation consists of several geographically dispersed companies that belong to the same corporation. Differences in legislation, culture, markets, currencies and language creates challenges for internal control and reporting. The internal control structure must be tailored to fit the needs of the MNC in question, and it must be on such general level that it can be applied to the whole corporation, including each subsidiary, as such. Also policies and instructions for internal reporting must be on such common standard that each subsidiary is able to utilize them the same way, so that the reports top management receive for decision making are comparable between different subsidiaries.

With the help of process management literature, several methods and models for process improvement were explored, and most suitable regarding this study were chosen and modified as necessary. Those methods included the modelling of current process by drawing a flowchart of the process, identifying weak points and possible bottlenecks, assessing the risks and possible controls for them, and speeding up the process by eliminating bottlenecks. As the results of this study, several actions regarding improving internal control and reporting in the case company were presented. The actions include guidelines for arranging an internal control structure to ensure reliable reporting from subsidiaries, and a new, improved intercompany reporting process to be implemented in subsidiaries. The most important aspect behind both of these is the top management awareness and commitment.

5.1 Discussion of results

The aim of the study was to improve reporting and internal control in a multinational corporation. In the background of the main subject, three other issues were raised, handling supporting management decision making with internal control and reporting, the utilization of process management in improving internal control and intercompany reporting processes, and the main risks in intercompany reporting and the control of them.

Management decision making can be presented as a process in itself. Internal control is a fundamental part related to the decision making process, making sure the information management receives is reliable and thus guides the management into right direction when making decisions. Without an effective internal control structure in place, there exists a huge risk of incorrect information used in decision making, which might lead to bad actions and could jeopardize the future of the company. The same applies to reporting, and the key issue is that the reporting should be reliable, and the analysis based on figures should be thorough and based on right assumptions. The timing of reporting is an important thing to consider; top management usually demand the reports as quickly as possible, but they need to understand, that the sooner the report is done, the more it contains estimates, and the less time can be used on analysis. In the empirical study two important issues stood up: analysis of the historic information and concentration on the forecasting of the future. From the management point of view, regarding decision making, they need to know where the past figures come from, and what's behind them, in order to make correct assumptions basing the decisions. Also, the forecasting of the future is important in regards to decision making, since it gives the management time to consider correct actions when necessary.

Utilizing process management in improving processes is not about selecting a method and following it precisely. Process management should be perceived as an analytical, systematic way of thinking, where subjects, e.g. reporting, are modelled as processes, which can be defined as a set of activities, where an input is transformed into an output by adding value to it during the process. In process management, there exists many models and methods for process improvement, but as academic literature acknowledges, they can and should be combined and modified to fit the needs of the organization and the processes in question. Though process management is usually used in manufacturing processes, it can be applied to other types of processes as well, once such generally applicable models and methods are found from the whole spectrum of them. Thus, once the assessment and planning of the process improvement is done properly, it's proved to be an effective way of improving processes of internal control and reporting in the case company. The assessment means identifying the special features of the

organization, which affect the processes in question, and carefully analyzing the current state of the process. Generally speaking, process modelling would seem as an appropriate method to be used in an effort to improving all kinds of processes. Drawing a flowchart of the process doesn't require much effort or resources, but when made properly, it can show the parts needing improvement quite easily. Other benefits of process modelling include showing the progress of the process and the parties involved in it, which increases the understanding of the employees of how the organization works and how things are done in the organization.

The main risks in intercompany reporting are related to reliability of the information and the level of analysis in them. Unreliable information in the reports is useless to the company, or in the worst case it might even be dangerous, should it lead to wrong conclusions and thus bad decisions by management. The reliability of information can be improved by having an effective internal control structure in place in the organization. The extent of the internal control is dependent on the company. Large multinational corporations tend to have heavy internal control systems built-in to their operations, processes and systems, and they also have an own organization for internal control. Since this demands vast amounts of resources, it's not possible for smaller firms to accomplish internal control on such a scale. The challenge for smaller companies is to have an effective internal control structure in place, which can be implemented and maintained with the resources available. The key issue is to get top management aware of the necessity of internal control, to ensure the needed resources to have it in place.

The main research problem of this study was, how the intercompany reporting process can be improved in a multinational corporation. It's important to remember, that process improvement has to be considered always case by case, taking into consideration the special features of the organization and the process in question. From organizational perspective, multinational corporation brings many challenges in the form of differences in legislation, accounting standards, culture, geography, markets, currencies and time zones. The intercompany reporting process is about reporting from one unit of the MNC to another unit, in other words it takes place inside the organization. As it is internal reporting, it's not regulated by laws or

standards, but it follows company policies and instructions. When the basis has been assessed, the current process should be identified and analyzed, which can be done with process modelling. After the process is analyzed, there are several methods to consider in improving it. As said before, process management is about combining and modifying the methods so, that they fit to the case in question, since there is no general model, which will lead to successful results. However, in the literature there are defined a model with critical success factors leading to successful process improvement, which gives guidance for what should be considered when improving processes. The methods chosen depend also on what kind of improvements organization is looking for; different methods work better in the pursuit of making drastic changes in the entire process map in an organization, than in seeking a way for continuous improvement in a certain process. For this thesis, the most applicable methods were chosen from vast amount of process improvement literature. The methods include process modelling, identifying the weak points and eliminating bottlenecks, assessing the main risks, and using the models of critical success factors and principles for effective reporting for analyzing the improvement needs in the processes.

5.2 Limitations and further research

When reading this study, several limitations must be kept in mind. First, since the study is conducted as a case study in one case company, it cannot be generalized to all kinds of organizations. The facts that the case company plays in the field of technology industry, and is a multinational corporation, gives some direction of the generalizability of this study, but as said, a single case isn't enough to draw general conclusions. When considering the fact that the case organization is an MNC, should be remembered, that rather than looking the MNC as a whole, this study focuses on the relationship of the parent company and one subsidiary. Another noteworthy fact is that the case company in the study is quite small, which has effect on the scale and scope of the internal control this study discusses. The internal control, being such a vast concept, is limited to internal control of financial reporting, and reporting is only perceived as internal reporting. In other words, the operational and conformance to regulations side of internal control have been left out of this

study, as well as external reporting. This thesis doesn't concentrate on internal control being a system extending throughout the whole corporation, but rather trying to find general guidelines to consider when trying to set up a structure for internal control in an MNC. In terms of reporting, this study handles only internal, financial reporting which is up to the company to organize, so the study cannot be generalized to cover external reporting which is regulated by legislation.

In the future it would be interesting to research, whether it's common to use process management in improving internal control or reporting, how is it used in practice and what kind of results have they gained from it. The concept of reporting could be extended to cover external reporting as well. Another interesting subject for further research would be, how the internal control frameworks are used when building an internal control system in a multinational corporation. Also benchmarking other MNC's and their internal control would be profitable for the case company.

5.3 Contribution of the study

This thesis brings process management into a new arena; there exists limited amount of studies regarding process management utilization in reporting or internal control. However, the results of this study suggests that process thinking can be a good way to plan improvements in reporting and internal control processes, once the groundwork is done thoroughly. This should encourage organizations to utilize process thinking more widely in different kinds of processes, since it has many benefits which are applicable to processes in general.

Another issue which this thesis sheds light to is multinational corporations and the challenges they face in internal control and reporting. As the competition tightens and globalization expands, there will be even more MNC's in the future. Internal control is, and will be an even more significant issue down the line, due to external pressures created by legislation and regulation, which is the perspective internal control usually is looked at. However, internal pressure should not be forgotten either, and top management of companies should understand the importance of internal control, and its impact on business performance. Too often internal control is perceived only as way to ensure the compliance of laws and regulations, although

it’s just a part of what the concept comprises of. The more important part of internal control from the top management perspective is ensuring of reliability of information they use in decision making, which has a direct effect on the success of the company not only at the present time but also in the future.

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