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Backsourcing Accounts Payable

A Backsourcing Plan

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Abstract

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The objective of this thesis is to create a plan for backsourcing outsourced accounts payable (A/P) services for the case company based in Finland, as part of unifying operating methods across the group of the case company. The thesis explores the current A/P process of the case company, investigates how other units manage their in-house A/P, and gathers best practices. Based on these insights, the thesis develops a backsourcing plan with key development ideas.

This study utilizes qualitative research methods, focusing primarily on semi-structured interviews and workshops. The research was conducted through interviews with key personnel to understand the current A/P processes and experiences with both outsourced (the case company) and in-house A/P (other units) services. The research followed an inductive approach, using applied action research to explore and improve current practices.

The study revealed that while the outsourced A/P process has provided certain advantages, it also faced challenges. Through benchmarking with other units that manage A/P in-house, the study indicated that backsourcing A/P would require operational improvements. The study provided a detailed plan for how the case company can begin planning the backsourcing process while improving the current A/P process based on the findings.

The meaning of this study for the case company lies in its potential to enhance operational efficiency, improve A/P process, and align with the larger goal of standardizing operations across the group. While not yet implemented, the backsourcing plan supports the decision-making, provides a ready-to-use plan for future backsourcing efforts, ensuring that the case company is prepared to act when the time comes.

Keywords: Accounts payable, Backsourcing, Benchmarking, Improvement.

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Glossary

A/P	Accounts Payable
A/R	Accounts Receivable
CFO	Chief Financial Officer
D	NE Territory unit 1
EDI	Electronic Data Interchange
EU	European Union
ERP	Enterprise resource planning system, contains purchase ledger and accounting
ERS	Electronic recycling system (for purchase invoices)
FA	Financial Administration
FM	Financial management
HA	Head of Accounting, Accounting Manager
HF	Head of Finance, Finance Manager
M	NE Territory unit 2
NE	Northern European
SSO	Single Sign-on
SR	Supplier register
PA	Purchase accounting
PL	Purchase ledger

PO	Purchase order
PPI	Process planning and performance improvement
VAT	Value-added tax
WQ-number	A series of two letters and four numbers (letters changed for confidentiality)

1 Introduction

Many companies outsource internal processes by sending work to another organization instead of processing the work in-house. The basic idea behind outsourcing is that the companies should outsource processes that are not in their core competencies. By doing this, companies are free to focus on the things that they do best. An outsourcing service provider must be able to produce genuine added value for the buyer of the service by automating processes in a way that quality and accuracy can be guaranteed. (Kiiskinen et al., 2002, 190.) When a company is re-evaluating their outsourcing arrangements and bring their functions or processes back in-house, this process is referred to as backsourcing. More precisely, backsourcing refers to the process of bringing back in-house the operations that were previously outsourced. (Mederos, 2021, 19.) As a result of changes in strategy and operating environment, the case company in this thesis has started to examine other ways to produce financial administration. One option is to return the outsourced accounts payable (A/P) to in-house operations and processes of the case company.

The thesis focuses on defining the current A/P process. A/P refers to the business department's function of paying the company's invoices (Schaeffer, 2004, 3, 284). The current outsourced A/P process in the case company is compared to the other units' in-house processes, highlighting discovered improvement ideas. The outcome of this thesis is a plan on how to start to backsourcing the A/P process and what the A/P process done in-house requires from the case company. This thesis leads its readers through the idea of backsourcing part of enterprise resources planning (ERP) from outsourced service providers. The subject is topical because the strategy of the case company is to standardize operating methods, manage costs, and optimize resources across all Northern European (NE) units.

1.1 Business Context

The case company is a medium-sized service producer in Finland that employs over 350 people throughout the country. The case company generates value by providing unique experience services, a place and products for its customers. The company's business is based on acquiring and managing rights to specific assets. It was founded in Finland and

is currently part of a chain that includes several units on different continents. The case company is part of an international group. The group has two more European units in the Northern area besides Finland, as Figure 1 shows.

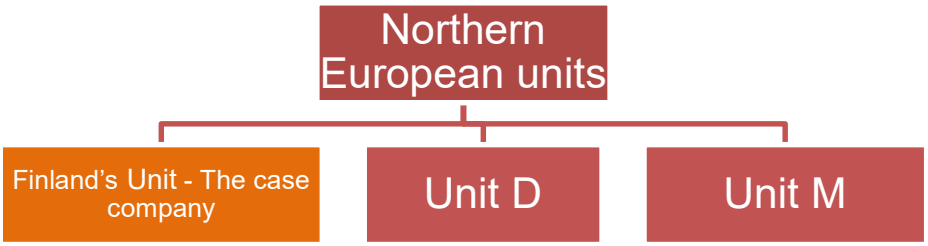

Figure 1. The group's Northern Europe units.

Figure 1 shows all three NE units. First is Finland's unit, and then the two other units. These two other units are referred to this thesis by using code names Unit D and Unit M. Changes in the external operating environment may cause pressure to get out of outsourcing. Such structural changes include, for example, mergers. Not many years ago, the case company merged with other units. As a result of this external change, the case company may end up returning outsourced functions to its in-house tasks.

1.2 Business Challenge, Objective and Outcome

The group of the case company has a mission to standardize operating methods across all units. This is considered to be crucial to the strategy of the case company. If the operating methods are carried out in the same way between all units, it is easier to understand and control them in the larger picture. The case company, the Finnish unit, is the only unit that has outsourced most parts of the company's ERP services. On the way to standardizing operating methods between all units, some or all ERP services may end up to be in-housed in the future. Outsourced ERP parts are shown in Figure 2 below. In the same figure is also presented what parts are in-house.

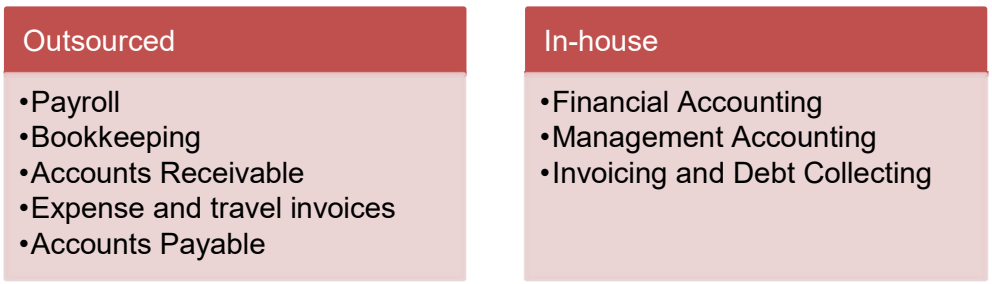

Figure 2. Outsourced and in-housed enterprise parts in unit of the case company.

As Figure 2 shows, the payroll, bookkeeping, accounts receivable (A/R), expense and travel invoices, and A/P services are outsourced. In the case company, the financial and management accounting are done in-house, as well as the daily invoicing and debt collecting.

The case company receives 32-40 thousand purchase invoices per year. As mentioned before, the company's business is based on acquiring and managing rights to specific assets. These specific assets are turn into service, as the business model is the experience service. For each specific asset service, there is a weekly purchase invoice. These weekly purchase invoices are called further as the core business-related purchase invoices. To process the purchase invoices the outsourced A/P team have access to the selected electronic recycling system (ERS) of the case company. The ERS software contract is owned by the case company. In the year 2022, the case company updated the A/P ERS and replaced the old system with the new, more digitalized system. The case company wanted to have more modern and easier software for all users. Figure 3 lists all the most important new features that the new software brought.

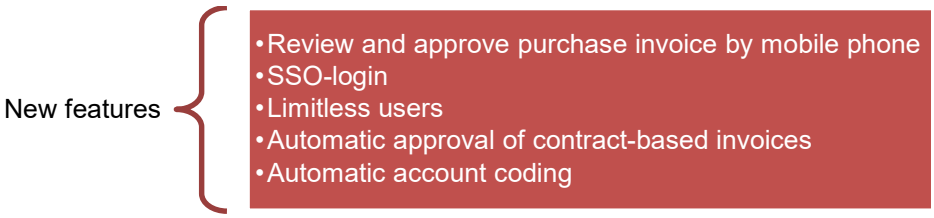

Figure 3. The new ERS brought several new modern features.

In addition to the new features that are presented in Figure 3, the new A/P system is cloud-based, since it does not need to be downloaded to users' computers. Limitless users can review and approve purchase invoices by mobile phone when Single sign-on

(SSO) identification method is done. The new ERS also has several automatic features in the approval process and account coding.

In the process of changing the A/P system, the case company had to understand the functions and operations handled by the outsourced A/P team. This learning and observation increased knowledge and skills in the local finance team of the case company. In the group, different units have been sharing their best practices and focusing on implementing in the same way. Part of unifying operating methods is the idea of in-house at least some of the outsourced services as far as this is deemed worthwhile.

The objective of this thesis is to create a plan for how to backsource A/P services and what in-house A/P requires from the case company. The target is to understand how the other units in the group are currently handling their A/P processes and collect supporting data for the case company. From the knowledge and experience of the in-housed A/P teams from other NE units, the purpose is to collect the most suitable working methods and to create a backsourcing plan. This is shown in Figure 4.

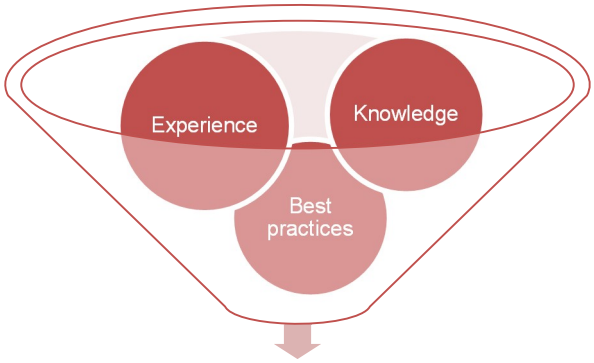

Figure 4. Collecting knowledge, experience and best practices from other NE units provide the best working methods.

As Figure 4 shows, collecting knowledge, experience, and best practices build together the best working methods for the case company. The outcome of the thesis is a plan describing how to plan backsourcing A/P services. The backsourcing plan is going to support the higher managers and the local finance team of the case company understand the necessary steps and considerations to backsource A/P services.

This thesis aims to evaluate the potential backsourcing of the A/P services and to identify the key points that should be taken into account to ensure the success of the possible backsourcing action. The purpose is to create a proposal for the case company that would answer the question: *How A/P can be re-established as an in-house process in the case company?* And to be clear, the purpose of this thesis is not to determine whether the backsourcing of A/P is financially viable for the case company.

1.3 Thesis Outline

The scope of the thesis is unit in Finland, and it focuses on the current A/P process flow of the case company. This thesis affects the employees in operational units and mainly in the local finance team of the case company. This thesis generates transparency between NE units as well as grows knowledge of other units' workflows and methods.

This thesis contains seven sections. The first section introduces the case company and its business challenges. The second section identifies the methods and materials used to address the business challenge. The third section focuses on identifying relevant existing knowledge & best practices on A/P service, business process development, and backsourcing A/P services. The fourth section provides the current state analysis. This section contains findings from the current outsourced A/P process. In the same section, there are collected the possible challenges, pointed-out key findings, and best practices from other units. It is recommended that these findings are investigated before the planning of the backsourcing can begin. The answers are expected to provide a general idea of how proposed A/P backsourcing should be implemented, and how it should be planned, without any deeper planning as salary budgeting. Based on these other sections, the fifth section presents the initial proposal about how to develop business processes and how to build a backsourcing plan. The sixth section reports the feedback received on the initial proposal and presents the final proposal. Finally, the last section concludes the thesis.

2 Method and Material

This section describes the research approach and the materials used in this thesis. Firstly, it provides an overview of the research approaches, and what approach was selected for the thesis. Thereafter, it presents a research design and data collection plan that is used for this thesis.

2.1 Research Approach

Research approach is a general term for doing inductive, deductive, or abductive research. The right research approach depends on the nature of the business problem and the selected methods and tools to collect the data. The deductive approach adopts a clear theoretical position that tests theory through collected data, while the inductive approach builds theory based on analyzed data. The third abductive approach is often used in research focused on theory development or testing a theoretical proposition through a research strategy specifically designed for that purpose. (Saunders et al., 2019, 51, 815.) Research can also be applied or fundamental (Hirsjärvi et al. 2015, 132). Often there are open boundaries between research approaches, research philosophies, and research strategies (Saunders et al., 2019, 190). As there are different approaches, there is a certain logic that defines the choice of approach for a study.

There are also three common types of research methods. These are qualitative research, quantitative research, and mixed methods research. Qualitative research is a technique for any data collection that produces or utilizes qualitative data, including words, images, and video clips, that can be collected for example from interviews, and quantitative research uses numerical data, such as data from questionnaires that are presented as graphs or as statistical measures. The third method, mixed methods research includes multiple methods and uses both qualitative and quantitative research. (Saunders et al., 2019, 175.)

Another important research concept is a research strategy, which is concerned with defining questions to research and targeting the needed objective. The choice of research strategy is linked to the chosen philosophy and research approach, but it is also possible to use different strategies within mixed methods. The most common qualitative research strategy in the business field is a case study and action research; for

quantitative research, the common strategy is a survey. Interestingly, a case study often uses mixed methods research. (Saunders et al., 2019, 189-190.) Action research is used in practical development projects where the researcher is actively engaged. Action research primarily relies on qualitative data collection methods, such as interviews, and it is carried out in organizations to improve operations. (Kananen, 2012, 41-42,49.) Action research stands apart from other research strategies because of its focus on actions. It explores and evaluates solutions to organizational issues and then promotes change. (Saunders et al., 2019, 203.) In the process of action research, organization members must collaborate with the researcher to enable the study of their current work practices. This cooperation involves a democratic approach to communication and decision-making at every stage. (Saunders et al., 2019, 204.)

The philosophical position in the action research method is pragmatism. Pragmatism ontology is complex, it fluxes of processes, experiences, and practices. Epistemology in pragmatism focuses on problems and solving these by creating successful action in the future. In this chosen philosophy, the role of values is researcher reflexive. Reflection means the process of observing existing practices and examining the way of doing things. To enable the collection of credible, reliable, and relevant data, pragmatism can be seen as using multiple research methods. These can be, for example, qualitative research or mixed methods research. (Saunders et al., 2019, 13, 145.)

In this thesis, the research approach is applied actions research, and the method is qualitative research since it relies mainly on conducting interviews and document analysis. The research strategy in the thesis is applied action research (in the sense of Kananen 2013) since it relates to improving practices and is used in practical development projects. All the findings of this thesis have practical value to the case company.

2.2 Research Design

The research design is a framework for the collection of data. The purpose of the data is to address research questions and fulfil research objectives justifying reason for the employed data sources, collection methods, and analysis techniques (Saunders et al., 2019, 815).

The research design provides an explanation of how the thesis project is conducted and the different stages of the research process. This thesis is planned to be conducted according to the following research design, shown in Figure 5.

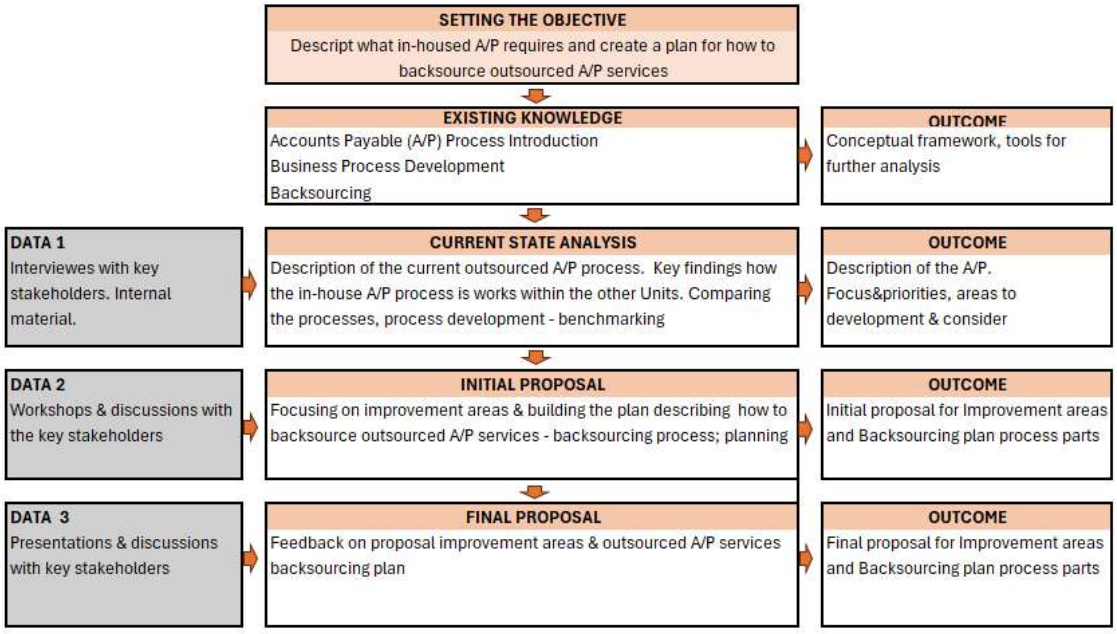

Figure 5. Research design for the Backsourcing Accounts Payable thesis.

As shown in Figure 5, this thesis starts by looking at existing knowledge of A/P services in general. This section considers the purpose of A/P, contains existing knowledge of business process development, and explores existing knowledge focusing on backsourcing A/P services.

Figure 5 shows also the three data collection rounds. The first round of data collection is focusing on the current state analysis, and it contains a description of the current outsourced A/P process in the case company. Data 1 is collected by interviewing employees in outsourced A/P services and A/P employees in units D and M. The analysis describes how the current outsourced process flows and how the in-house A/P works in other units. This supports to understand the current A/P process in the case company and compare it to other units, using benchmarking. The outcome of Data 1 analysis is a summary of the current state, listing focus and priority findings. The data helped to clarity where in the case company process parts need development and what things need to

be considered when re-establishing outsourced AP as an in-house process. The output also helped the case company understand what knowledge is missing for in-housing A/P.

Data 2 was collected to help in building the plan for to backsource A/P service. This data collection was done through semi-structured interviews and collaborative workshops. Collaborating with the local finance team members and higher stakeholders of the case company in workshops, the result is the best practices and findings that are important for the proposal improvement areas and for the plan on how to backsource A/P.

Data 3 contains open discussions about the proposed improvement areas and plans on how to backsource A/P with the local finance team and higher stakeholders of the case company. Collected feedback from these stakeholders gave improvement and next-step ideas on how to go forward with the plan. This resulted in the final proposal for the case company on what in-housed A/P requires and created the description of the planning process parts of backsourcing outsourced A/P services.

2.3 Data Collection and Analysis

As mentioned before, this thesis draws from data collected in several rounds. This section shows an overview of the data and data collection methods. The data collection plan contains relevant information needed for the process. It is linked to the objective of the thesis. Table 1 shows data collections 1-3 used in this thesis.

Table 1. Details of Data collections use in Backsourcing Accounts Payable thesis.

Participants / role	**Data type**	**Topic, description**	**Date, length**	**Documented as**
Data 1, for the Current state analysis (Section 4)				
Outsourcing A/P service contract	Service agreement	The current agreed process. Skeleton of the process.	06/06/2023	Notes on the excel, process map building
Former outsourced A/P team member	Interview by phone, online workshop (Number 1)	Detailed work process of current process. Insider knowledge.	13/06/2023 1,5h 22/06/2023 1,0h	Notes on the excel and process map building
Outsourced A/P team member	Interview / workshop via Microsoft Teams, online workshop (Number 2)	Analysis of the current outsourced process.	14/12/2023 1,0h	Notes Audio recording

Unit M A/P member	Interviews /workshops via Microsoft Teams (Number 3)	Analysis of the current in-housed process flow, benchmarking processes.	21/12/2023 1,0h	Notes Audio recording
Unit D A/P member	Interviews /workshops via Microsoft Teams (Number 4)	Analysis of the current in-housed process flow, benchmarking processes.	19/01/2024 1,25h	Notes Audio recording
Unit D A/P member	Interviews /workshops via Microsoft Teams (Number 4)	More detail discussions related to some parts of the A/P process.	15/03/2024 1,0h	Audio recordings
Data 2, for Proposal building (Section 5)				
Local Finance team	Interview / workshop f2f & via Microsoft Teams (Number 5-8)	Going through the results of current state analysis and open discussion for building proposal	22/02/2024 1,25h	Audio recordings
Local Finance team & Higher stakeholders	Group discussions f2f & via Microsoft Teams	High level discussion of backsourcing in general. Going through the results of current state analysis	13/03/2024 1,5h	Notes
Local Finance team	Individual 1:1 discussion (Number 5-6)	Deep level discussion of building proposal.	13/03/2024	Notes
Accounting related local finance team members & Higher stakeholders; CFO, HA & HF	Group discussions f2f & via Microsoft Teams (Number 7-8, 10-12)	Deep level discussion of building proposal.	15/03/2024	Notes
Unit D PO-person	Interview / workshop via Microsoft Teams, online workshop (Number 13)	Process of PO for core business related purchase invoices – building proposal.	10/04/2024 1,0h	Audio recording Notes
Accounting related local finance team members & Higher stakeholders; CFO, HA & HF	Group discussions, workshop f2f & via Microsoft Teams (Number 7-8, 10-12)	Deep level discussion of building proposal.	11/04/2024	Notes
Data 3, from Validation (Section 6)				
Local Finance team	Group discussions/ Final presentation via Microsoft Teams, online (Number 5-8)	First Validation, evaluation of the Proposal	24/05/2024 1,0h	Audio recording Notes
Higher stakeholder; CFO	Discussion/ Final presentation via Microsoft Teams, online (Number 10)	Second Validation, evaluation of the Proposal – first session	18/06/2024 0,5h	Audio recording Notes
Higher stakeholders: HA & HF	Group discussions/ Final presentation via	Second Validation, evaluation of the Proposal - second session	20/6/20224 0,5h	Audio recording Notes

	Microsoft Teams, online (Number 11-12)			

As seen in Table 1, there are three data collections. Data 1 is gathered and analyzed in the current state analysis phase. Data 2 is gathered in the building proposal phase and Data 3 is collected from the validation phase. These three data collections establish the required data for this thesis.

Data 1 was collected by interviewing former and current outsourced A/P team members and the other units' employees who work in A/P to gather the best working methods for developing the plan to backsource A/P services. The interviews are conducted as face-to-face interviews, online interviews via Microsoft Teams meetings, or by phone call. The analysis also includes document analysis and system document reviews. Data 1 focused on collecting knowledge of the outsourced A/P process and collecting the internal best practices and the whole idea of how the in-house A/P is working. Part of the interviews was recorded before creating the notes. Internal documents used in the current state analysis, Data 1 are presented in Table 2 below.

Table 2. Internal documents used in the current state analysis.

	Name of the document	**Number of pages**	**Description**
A	Outsourcing A/P service contract	6	The contract between the case company and service provider.
B	A/P ERS System software	Online guidebook	A/P software admin user manual.
C	A/P team internal handbook	Excel sheet	The guidebook of reviewer, approver, and account rules of the case company.

As seen from Table 2, Data 1 contains internal documents. The documents are analyzed for Data Collection round 1, the current state analysis, to get an understanding of the A/P process, the ERS, and the account rules of the case company. These documents provide information on what tasks the case company and the outsourcing service had agreed on, how the ERS is used, and what the case company requires from the outsourced A/P team. Using this background information helps to understand the process in the current state analysis stage.

In the second round, Data 2, for proposal building, is collected from stakeholders in a workshop with members of the local financial team of the case company. The case

company has a small finance team with less than five people. The local finance team is divided into two different parts; Accounting support functions and Finance planning and analyzing functions, but all members are working closely together. This data included a face-to-face workshop. One of the participants was not available to join to the semi-structured interview/workshop by face-to-face, and therefore, the meeting was partly handled via Microsoft Teams. This workshop included free discussions and brainstorming ideas from findings of the current state analysis for building the proposal. After the team meeting, there were a couple of one-to-one discussions with a couple of local finance team members. These meetings were not recorded, but ideas and thoughts were written down. This data included also several workshops with accounting-related local finance team members and higher stakeholders of the case company. Additionally, there was one interview with no finance or A/P related unit D's person. The information from this person helped to a build proposal of a large development idea.

In the third round, Data 3 was collected when validating of the initial proposal. Data 3 includes feedback for the proposal from the case company. The feedback was collected first from the local finance team of the case company. The second validation of the initial proposal was done with other stakeholders, the higher managers. The higher managers who participated were from the NE territory. The Chief Financial Officer (CFO), Head of Accounting (HE) and Head of Finance (HF) participated in the validation.

To be able to understand the current A/P processes in the case company and start the process development and planning how to backsource, it is critical to understand the main purpose of A/P in general. After that, it is important to understand the best practices in business process development and to have knowledge of how backsourcing takes place. The next section is related to these topics.

3 Existing Knowledge & Best Practices on A/P Use, Business Process Development and Backsourcing

This section contains existing knowledge that is utilized in this thesis. In this thesis, theoretical elements are limited to what is essential. The three specific elements are A/P service, business process development, and project planning of how to backsource A/P service shown in Figure 6 below.

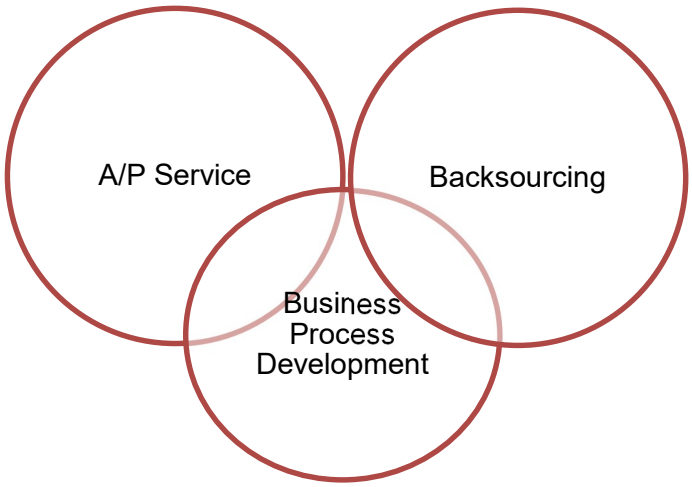

Figure 6. Focus areas for exploring existing knowledge and best practice in the thesis.

As seen in Figure 6, first, *business process development* is the unifying factor that binds the focus areas together. Business process development focuses on the process of development and the methods of development. This focus area is selected following the internal needs in process development, and as such makes a suitable basis for exploring existing knowledge and best practice in the thesis.

Second, the A/P services introduction, responsibilities, and roles, as well as benefits and risks form another focus area. Third, backsourcing services are the final focus area, including the process steps of backsourcing and going through the A/P backsourcing process action plan. By using this theory, the main goal is to figure out, on a practical level, how to proposal plan for the case company to start evaluate to backsourcing their A/P services.

In this thesis, to fully understand the process to be developed and backsourced, it is necessary to take a closer look at accounts payable. Next, the following section introduces accounts payable services.

3.1 Accounts Payable Process Introduction

The primary function of A/P is to pay the company's purchase invoices (Schaeffer 2004, 3). When a company acquires necessary products or services to make a profit, it receives purchase invoices. When the company uses an A/P, it is good to do the accounting for the accounting period entirely on an accrual basis. In accrual-based accounting, the entry takes place at the time when the purchase takes place. An expense occurs when the company receives the goods or services it ordered, the time of payment is irrelevant. This accounting basis is the only right way when the company wants to monitor the development of its results every month.

Processing purchase invoices is often time-consuming. More and more companies process purchase invoices electronically. Paper invoices are converted to electronic form by scanning. Most invoices are Electronic Data Interchange (EDI) invoices, and they involve the electronic transmission of data between a buyer and a seller (Schaeffer 2004, 157). Companies can scan their purchase invoices by themselves, or they can buy scanning services from outside the service providers. Purchase invoices are transferred to the purchase invoice program, where the reviewer and approver can handle them. The ERS for purchase invoices ensures a quick approval cycle. The reviewer and the approver often have the responsibility of adding accounting codes. Automating accounting processes is an important step in making financial management (FM) more efficient. After the purchase invoices are reviewed and approved, they are transferred to the A/P account and the information from the A/P is transferred to the accounting ERP system. (Koivumäki and Lindfors 2012, 13, 75, 78, 84.)

Summary of the main process flow of A/P is presented in Figure 7 below.

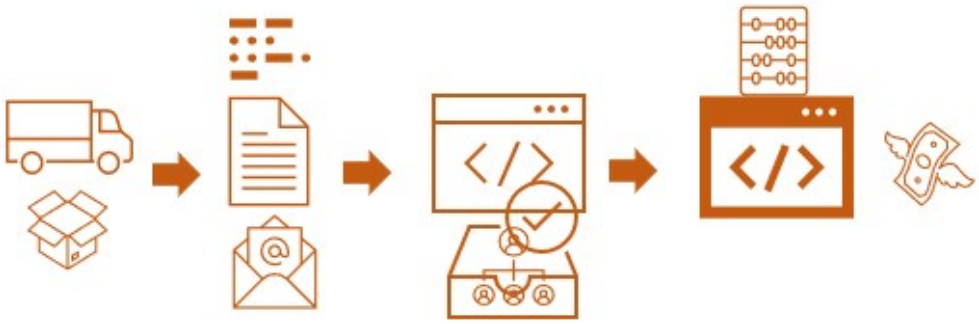

Figure 7. A/P simplified main process flow made by using Microsoft Excel Icons.

Figure 7 presents the main process flow of A/P in a simplified process based on the previously described process. This process flow is made by using Microsoft Excel Icons to show the process of how getting purchase delivery (the good or service) and its purchase invoice (electrical, paper, or e-invoice) is transferred to the A/P system. In the A/P system, the purchase invoice is approved and then transferred to the ERP (purchase ledger and accounting) system with accounting codes and finally paid. The next chapter describes the process of A/P services in more detailed.

3.1.1 A/P Services - Processing of the Purchase Invoice

Before the purchase invoice approval for the ERS cycle, the invoice information is checked. This is the first work task of the A/P manager. It is important to make sure that the supplier and numerical information is correct. The most important thing about supplier information is to check the correctness of the bank account. The accounting of the purchase invoice can already take place at this stage, or later by the reviewer.

Increased internationality brings challenges to the processing of purchase invoices. Accounting for purchase invoices from abroad may be difficult. Mastering the basics of income and value-added tax (VAT) is one of the basic requirements of a good A/P manager. In addition, the A/P manager needs to know about accounting periodization rules, and the possibility of activating acquisitions or even activation obligations. The A/P manager must be able to make monthly or fiscal accruals if the purchase invoice applies to several months at a time. In the case of certain purchase invoices, it is necessary to consider whether it is an annual expense, or an item intended to be capitalized on the balance sheet.

The meaning of the accounting coding instructions is important when the A/P manager does accounting coding for the purchase invoice. The entity responsible for accounting must set up accounting coding instructions. By following instructions, the purchase invoice postings can be made at once as correctly as possible. This saves the work steps of the actual accounting. When doing accounting certain inspection procedures are carried out to ensure the correctness of the entries in the purchase invoices and thereby also the correctness of the accounting. (Koivumäki and Lindfors 2012, 75, 78-79.)

Companies generally have a two-stage purchase invoice approval cycle. The two-stage purchase invoice approval cycle (Figure 7, third step) serves as one of the company's internal controls. The approval step in the A/P process needs two personnel from the company; the reviewer and the approver. The review of the purchase invoice is usually done by the entity that has ordered the product or service. In reviewing the purchase invoice, the reviewer establishes whether the purchase invoice belongs to the company and whether it corresponds to the delivered product or service. The purchase invoice must correspond to the order. An incorrect purchase invoice cannot be accepted, and a reclamation must be made about it. The purchase invoice can be added accounting codes at this stage, or if the purchase invoice has already accounting codes, the reviewer can still comment on the correctness of the accounting and add possible follow-up items, for example, the cost center number or the project number. If the content of the purchase invoice is correct, the purchase invoice is then accepted for payment by the approver, who is often a manager-level person. The approver must trust that the reviewer has examined the correctness of the purchase invoice. There may be several reviewers and approvers in the purchase invoice approval cycle, depending on how many different functions and departments the company has. In most current FM as in ERS, there are many different options for automating the right reviewers and approvers for certain types of purchase invoices, therefore there is no need to add them manually every time. (Koivumäki and Lindfors 2012, 76-79.)

When the purchase invoices are approved in the ERS, they are transferred to the PL and at the same time to the accounting. When transferring purchase invoices to PL it is important to check that all purchase invoices have been transferred in the correct amounts. When transferring to accounting, it is good to check the correctness of the accounting accounts and check that the accounting transactions are transferred to the correct month and fiscal year. (Koivumäki and Lindfors 2012, 86.) This is shown in the last step in Figure 7 A/P simplified main process flow. Accounting is presented here by

the classic bead board. The bill with wings means making the payment according to the purchase invoice and supplier bank details in the supplier register. This topic is explained in more detail in the following section.

3.1.2 Responsibilities & Roles

The company is always responsible for its accounting, taxes, and employer obligations. Similarly, the company is responsible for the correctness of the material it delivers to the outsourced accounting company. There must be clear roles in the cooperation between the company and the outsourced accounting company. When outsourcing FA, the company must remember that the accounting company does not know the company's operations in the same way as the company's personnel. (Koivumäki and Lindfors 2012, 29-30.) One-third of all companies have an A/P staff of two or fewer employees. The large number of companies with small A/P teams also implies many of the A/P functions discussed are performed in other departments, most commonly by controllers or accounting and in some cases finance. (Schaeffer 2004, 294). The next sub-section describes closer the responsibilities related to the supplier register.

3.1.2.1 Supplier Register

To ensure the correct process of purchase invoices and the success and correctness of payment, the supplier registers (SR) and other basic information specified in the financial administration (FA) systems play an important role. With the SR and other basic information, it can be ensured that purchase transactions are entered in the ledger to the correct accounts and that payments are made at the correct time to the correct bank account. Value-added tax processing and the correctness of filling out the seasonal tax declaration depend on the settings made in the purchase invoice program software and in accounting accounts. (Koivumäki and Lindfors 2012, 75.)

In integrated FM programs, there may be a common customer and supplier register for sales and purchase accounting (PA). However, in many programs suppliers and customers must be set up separately. Careful filling in and continuous maintenance of the information in the SR is meaningful because the information is used in A/P. In addition to the normal supplier identification data, the SR includes control information related to accounting, payment, and VAT processing. In the SR, the vendor gets a customer

number. Using the supplier business ID number as a customer number ensures that the company does not accidentally establish the same supplier with several different numbers. Supplier name, address, and payment connections are the most critical information when filling in the SR. For the payment, information about payment terms is required. (Koivumäki and Lindfors 2012, 75-76.) By granting limited access to the SR, companies can control their vendor files. The most common types of employee fraud relate to a person who has access to the files. It is vital to limit the access to update and change the vendor files. (Schaeffer 2004, 91.)

In the SR, the suppliers' VAT status is stated. The supplier information, there can include a mention whether the supplier is in a European Union (EU) country or a country outside the EU. Depending on the software, this information can affect what kind of PA is used in accounting and whether VAT is recorded on the purchase. The selected PA can be used to control the accounting VAT calculation, and the seasonal tax declaration is completed electronically based on the used PA. (Koivumäki and Lindfors 2012, 76.)

3.1.2.2 Purchase Ledger, Payment, and Reconciliations

From the purchase ledger (PL), the company can monitor all the unpaid purchase invoices and thereby monitor the adequacy of the money and plan payment schedules. Usually, approved purchase invoices are paid automatically without asking for payment approval separately. From the point of view of the efficient operation of the FA, it does not make sense to pay purchase invoices separately every day. A company can pay purchase invoices, for example, once or twice a week, and when paying, put all purchase invoices whose due date is before the next payment date into payment. The successful payments are verified from the account statements of the following days. When the success of the payment has been confirmed, the payment is updated in the PL. In this case, the purchase payables are cleared from the PL once and for all, and the situation in the ledger is always as up to date as possible. The ledger and accounting should be updated constantly. (Koivumäki and Lindfors 2012, 86-87.)

The reconciliation between PL and accounting is usually done on the last day of each month. In this case, a list of open purchase invoices is run, and compared to the balance of the accounts payable account in the general ledger. If the total amount of purchases or payments in the PL is not the same as in the main accounting, the error can be caused,

for example, by the fact that not all purchase invoices or payments have been transferred from the ledger to the accounting for that month. An error may have occurred in the processing of purchase invoices and payments, for example, regarding bank account numbers or dates. Errors detected in the reconciliations are corrected either by correcting the incorrect exports or by recording a correction voucher in the accounting of the month to be reconciled. (Koivumäki and Lindfors 2012, 87.)

3.1.3 Benefits & Risks of In-housing A/P Services

Large-scale outsourcing of FA has started since the turn of the millennium. It is curious that the demand for outsourcing services has only recently increased, given that the first accounting offices in Finland were established as early as the 1950s. (Lehikoinen and Töyrylä 2013, 27.)

Having outsourced some financial processes in earlier years, some companies subsequently decide to in-house these same processes. According to Lehikoinen and Töyrylä (2013) some benefits of in-housing are growing competence and control, and a positive impact on the company's employees and image. They also hypothesized that the service level could improve. The benefit of internalization is that communication between the FA department and the company's management is often more flexible and occurs in real-time. In-house processes are not as fragmented as the functions between the outsourcer and the outsourced services, this means that the operations and communication are faster and unnecessary bureaucracy is reduced. (Lehikoinen and Töyrylä 2013, 44.) The problem of outsourced services can be excessive dependence on the service provider, in which case the company's self-direction and independent decision-making can suffer (Huuhka 2017, 172). Mederos (2021) has witnessed that the backsourcing processes lead to stronger organizations, reduced operating costs, and enhanced service quality. When a company produces services in-house, the company is not completely dependent on external parties. (Mederos, 2021, 179.)

Another potential benefit of in-house FM is the possibility of reducing staff turnover. Hopefully, the same employees are committed to the company and their work if the recruitment made in connection with the in-housing of services is successful. According to a survey produced by Tietoakseli (2015), companies that have outsourced FA experience the constant change of contact persons as a challenge. It can be very burdensome for a company buying outsourced services if the contact person at the end

of the outsourced service provider changes often, and there is no time to form a deep interaction relationship. The advantage of in-housing services is that the FA knows and is familiar with the principles and operating methods of the company and has knowledge of the operations of that company. The contact person of the outsourced service provider may not feel as close and reliable as the in-house contact person. In in-house functions, the company itself is able to be influenced more by its values and to the realization of the goals and to modify their activities accordingly. (Liimatainen, 2016.) In-housing can improve efficiency and make the operating processes that were possibly broken by outsourcing back into intact entities. In in-housed services, the operation is unified, and the different areas of the operation can be divided more clearly. (Huuhka 2017, 171.) According to Abaricio (2023) the benefits of backsourcing may include reducing labor costs, increasing flexibility, improving quality control, increasing competitiveness, improving supplier relationships, and having better alignment of business and IT.

Rising costs are one of the risks of in-housing A/P service. In-house operations may require more capital than purchasing services from an external service provider. Depending on the size of the company, several employees may be needed for FA functions. The company needs to acquire the missing skills for these tasks. There is also the possibility that the company cannot focus on the core functions in the same way, or the company can lose the competence gained through outsourcing, which has strengthened the core competence. (Lehikoinen and Töyrylä 2013, 43-44.) According to Huuhka (2022), risks of in-housed FA are for example decrease in performance, unavailability of special expertise, and an increase in fixed costs. (Huuhka 2022, 156.) Abaricio (2023) on the other hand, states that the risks and challenges associated with backsourcing are quality control issues, loss of control, cost considerations, data and security and privacy concerns, and difficulties in finding qualified workers.

Corporate Finance Institute (2021) lists in their article some similar considerations as those discussed above. The advantages of choosing to in-house can potentially increase efficiency, including operational control, work continuity, motivation, and social capital. Related to operational control, the organization can more easily manage its teams and control processes internally, while external hiring can slow work continuity due to the time required for onboarding and orientation. It is quickly eliminated because the internal employee is already familiar with the organizational environment and understands the company’s history. From a motivation perspective implementing a system that prioritizes on internal hiring creates a strong sense of motivation across the organization.

Employees are driven to advance within the company and put in more effort to achieve career growth. In terms of social capital, bringing operations in-house leads to greater social capital and improved knowledge sharing. This is because trust is crucial for knowledge exchange, and employees are more likely to trust familiar colleagues than new hires. (Corporate Finance Institute, 2021.)

Corporate Finance Institute (2021) wrote in the same article that the one risk of choosing in-house compared to outsourcing is that it can be quite expensive to allocate operational tasks internally. This is because the business must prepare the workplace for new employee roles and/or purchase or lease additional office space to accommodate potential team expansions. Additionally, it is typical that bringing operations in-house is directly linked to higher wages, which significantly raises overall expenses. Another risk that Corporate Finance Institute (2021) is listing in their article is that, in some cases, hiring from within can result in a longer implementation of process flows, training, and production. This occurs because in-house hiring often involves selecting less experienced candidates compared to opening the position to the entire labor market and choosing the most qualified individual (Corporate Finance Institute, 2021.)

All above-mentioned paragraphs of benefits and risks of in-housing are summarized below in Figure 8.

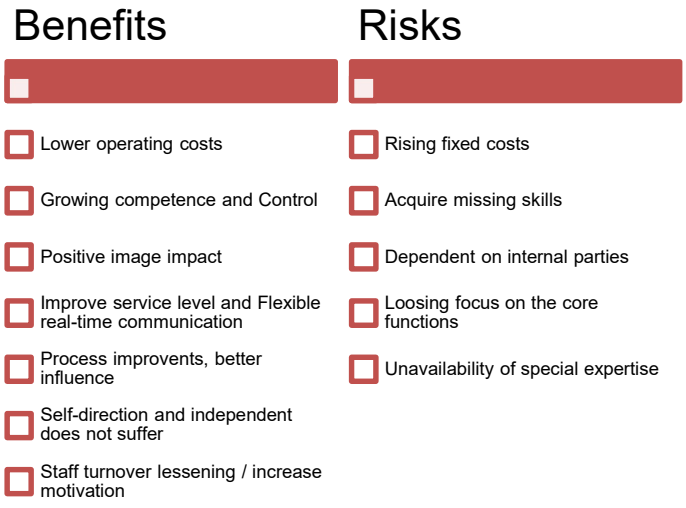

Figure 8. Summarized benefits and risks of in-housing A/P services.

Figure 8 summarizes the benefits and risks of in-housing services. On costs side, there can be savings, but still, fixed costs might grow. In-housing can impact positively on the

company's image and at the same time, the service communication can be more flexible and take place in real-time. Processes can be improved, and the company can influence better on their processes when the company has its employees in charge. However, the company must have skilled employees on the team to make these required services in-house, and employees are then dependent on the internal parties. It is clear, that having A/P services in-house creates benefits, but also serious risks that need to be considered.

Now that the first element of the conceptual framework of A/P services has been described and the main A/P process is clarified with its benefits and risks, it is time for the next element of this thesis. The next section continues to focusing on business process development.

3.2 Business Process Development

Process means the way business is conducted in all elements, including elements both in business methods and operating systems (King et al., 2014, 3). Process development refers to the redesign of the organization's core processes. The redesign of the organization's core processes can mean radical change, rethinking, and reorganizing activity chains. The organization's core processes development is always based on to the organization's vision and the strategy derived from this (Kiiskinen et al., 2002, 27, 38).

3.2.1 Business Process

A business process is a sequence of interconnected activities that an organization accomplishes a specific result. These processes help to organize work effectively. The perceived success along with the resources used to achieve it, can be evaluated, enabling improvements or adjustments to the process. (Grover et al., 2008. vii.) The process can be defined as a dynamic series of activities, i.e., a chain of activities, for which outputs and their recipients have been defined (Kiiskinen et al., 2002, 28).

A process begins with a trigger, which serves as the signal to initiate the process. A process is a set of related or interconnected activities intended to convert inputs into outputs. An effective process realizes planned activities and achieves planned results. A process always has a customer, either external or internal and the customer is is anyone

who requires the output of the process. An input refers to what companies possess or anticipate receiving in order to initiate an activity. Inputs can be intangible, such as time, a customer's requirement, or an individual's expertise. On the other hand, it can also be a tangible item, such as a raw material. An input can encompass something that will be altered during the process, like a component that will be assembled into a final product, or it may include a resource that remains unchanged, such as money or a piece of factory equipment. A process is transforming previously listed inputs into outputs. An output, which needs to be measurable, is what the company wants to provide to the customer, allowing the next step to move forward. For example, an output of a customer relationship process might be customer satisfaction, which needs to be evaluated through customer surveys or other assessment methods. (Berman, 2014.)

Usually, a business process system contains several levels of processes within the hierarchy. The function consists of a series of related work tasks that are performed in the organization (Kiiskinen et al., 2002, 28). It contains high-level and low-level processes. A high-level process is more abstract and has a broader area of focus than a process at a lower level; it contains less detail but covers a wider range of tasks. A low-level process is more detailed and more concrete. Most companies have three or more levels in their process system. The highest level always shows what is to be done, while the lowest level gives detailed instructions for how to perform each task. It is up to the creators of a process system to decide how rigidly to define each intermediate level and whether it is important to keep a similar level of detail in procedures on the same level, or whether it does not matter. (Berman, 2014.)

An organization rarely achieves significant operational and financial improvements solely by fine-tuning existing structures or optimizing their operational models. To achieve truly significant operational and financial improvements, the organization must be able to reform its business model. (Kiiskinen et al., 2002, 15.) Reforming includes process development.

3.2.2 Process Development

As mentioned earlier, the organization’s core process development is always based on the organization’s vision and the strategy derived from this. Process development is not a new phenomenon, but it has been especially on display since the early 1990s. (Kiiskinen et al., 2002, 27, 38). In a situation where a problem has been identified, there

is a potential to engage in process development (Laamanen, 2001, 202). Operations should never be changed based on a single error or complaint, as change easily creates new sources of error. In terms of statistical process control, this is called unnecessary tampering with the process. Errors and complaints should be analyzed, but they should not be allowed to guide the operation. Successes must also be studied, and an overall picture created. (Pitkänen, 2010, 101.)

3.2.2.1 Process development project

According to Kiiskinen et al. (2002), a *process development project* can be divided into five steps. The first step is to set management expectations and get approval for the project. The key result from this step is a situation assessment and overall plan. The second step includes the current state analysis of the processes. In the third step, the vision and critical success factors are defined. In the fourth step, the new operating model is defined, and the last step is implementing the new model. (Kiiskinen et al., 2002, 37-38.) An overview of the process development project steps is shown in Figure 9 below.

Figure 9. Process development project (Kiiskinen et al., 2002, 38).

In the first step, management's expectations define the purpose for process development project and narrow the project scope. In this step, the pain points are identified, and the opportunities and the critical improvement processes are defined. In the step two, the analysis of the current status serves as the starting point for change. The goal of the analysis of the current status is to reach a common vision of the current state of the organization, targets for change, and the necessity of change. By using process descriptions, the current state of the organization can be modeled. Process descriptions can be done using interviews and short group sessions where the problems of the current

situation are described. The process descriptions reveal opportunities for change in the current process, which leads to the third step. (Kiiskinen et al., 2002, 42-46.)

The third step of a process development project is Vision & Critical Success Factors. In this step, the aims of change are defined. In defining aims, the main key is to describe findings and review the opportunities that the current analysis has revealed. The other side of defining change goals is related to the organizations vision. The vision creates the base for the organization's critical success factors and affects the organization's stakeholder's willingness to execute upcoming change. (Kiiskinen et al., 2002, 49.)

Thereafter, the step four can begin. In this step, the main aim is to define the optimal delivery method that enables the implementation of the set change goals. Planning the new operating model should cover the whole logical entity for the process. In this stage, all the solutions in the current process are questioned. Unnecessary steps and functions are eliminated and planned again to follow the new operating model. The new operating model process diagram outlines all the process actors, steps, functions, and their interdependencies. Creating the new operating model includes concrete information about the change. Personnel should be able to internalize the change and embrace it. In the change process, the information of the change is just one part. In addition to information and communication, people must be able to participate in the change process themselves. When the people in the organization are told the reasons for the change, they will understand the options for the change. Understanding change is easier to commit to and the implementation, the last step can start. (Kiiskinen et al., 2002, 55-58.)

The last step of a process development project is implementation. Employees need to be trained on the redesigned process and in-process performance measured. When new operating models are introduced, old operating models are abandoned at the same time, but the improvement is continuous. In replanning operational processes, the one success element is to concrete the changes in guiding personnel in their new work tasks. Implementing a new operational process requires the existence of the following conditions: dissatisfaction with the old and the attractiveness of the new, the clarity of the vision for change, practical measures, faith in the realization of the change, and the contributions it requires. Missing even one of these could lead to problems, for example, confusion, misunderstandings, and suspicions. In radical changes, something visible should be achieved quickly. (Kiiskinen et al., 2002, 59-62.)

As discussed above, the process development requires setting a project scope and conducting the current status analysis. The change opportunities can be pointed-out by using development methods, such as benchmarking. When analyzing change opportunities, benchmarking can be used to see the difference between processes. Benchmarking also points out opportunities and weaknesses about other similar processes and helps to create support for change. By benchmarking, organizations can improve their performance and learn how to develop their business processes more efficiently. Results from benchmarking include detailed information on best practices, in other words about the best way to act. (Kiiskinen et al., 2002, 42-59.) The next chapter contains information about types of business process development methods, one of which is benchmarking.

3.2.2.2 Development Methods - Process Planning & Performance Improvement

There are many methods used in process development. According to Laamanen (2001) there are three basic types: process planning and performance improvement (PPI), problem-solving, and benchmarking. All these types have common features such as process modelling, measurement, analysis, and testing solutions. (Laamanen, 2001, 209.) In any method used, it is important to understand the current process before undertaking any other steps.

Firstly, in the PPI development method, there is an essential approach to examine the process in light of the needs of the stakeholders. This process development method is also essential to strive for continuous improvement. The review of development opportunities focuses both on the process itself and improving its efficiency, and on the product and its possible development. This process is also often used to make product improvements and implement radical improvements. The most important in improving the process is to accurately describe and measure the process. With the help of measurement, the purpose is to find the factors that need to be influenced to improve the performance of the entire process. A few typical analyses are costs, errors, deviations, and customer feedback. (Laamanen, 2001, 210.)

The process PPI development method starts from the planning. A simplified overview of the process PPI development method is shown in Figure 10 below.

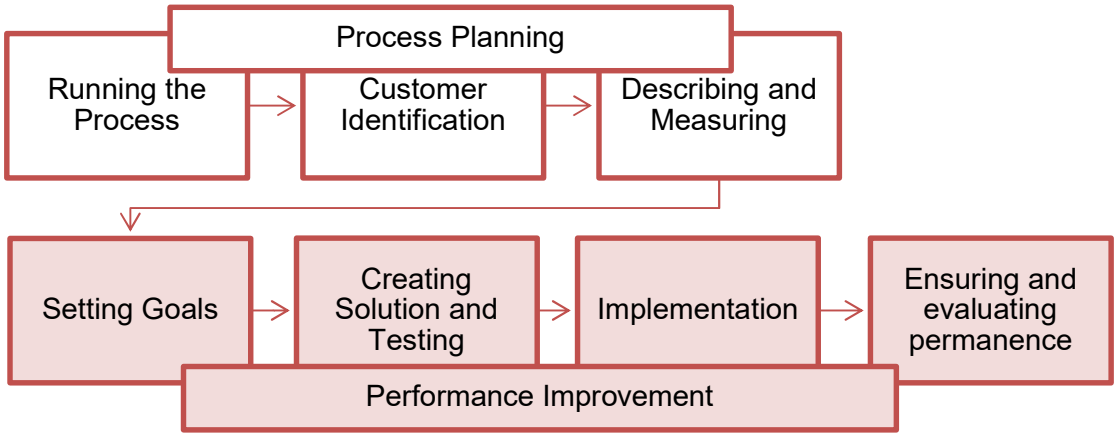

Figure 10. Predigested process description. The process of planning and performance improvement by Laamanen (2001, 211.)

Figure 10 shows, the process PPI development method starts from the planning. Process planning contains a common understanding of the process and its development needs. Customers and other stakeholders must be identified before the process can be described and measured. The description provides an understanding of the operation and performance of the process. After this, the performance improvement can begin with setting goals, which creates an understanding of development opportunities and new performance goals. When goals are set, new solutions are created and tested to be sure of the functionality of the solutions. After testing, the changes are implemented. This includes investments, reorganizations, and training. At this stage, the first signs of a better result are seen. At the end of the process, PPI development method lessons learned, and insights are recorded, and a decision is made on how to continue. This aims to ensure permanence and evaluation, which includes recognition for a job well done. (Laamanen, 2001, 210-211.)

3.2.2.3 Development Methods - Problem Solving

Second process development method is problem solving. In the problem solving method the focus is on identifying a problem hindering the organization's operations or preventing good performance. The starting point of the development work is therefore the elimination of the problem, which is believed to lead to better performance. The whole process is not called into question, but rather small improvements to it. The problem can be related to either the process or the product. For example, development can be initiated by customer complaints, errors, staff complaints, or development ideas and audit

findings. The process of solving the problem is complicated by the fact that often the problem to be solved has not been defined concretely enough. The degree of concreteness can be tested, for example, by dividing the problem into sub-problems or by finding out which larger entity the problem is related to. Perhaps the most practical way to limit the problem to be addressed is to demand practical results in six months. The goal becomes clear when the problem is identified and what benefits will be achieved when the problem is removed. The desired state and the timing of its achievement also help to define the project's goals. It is also necessary to find out, for example with the help of key figures, when the desired state has been reached. (Laamanen, 2001, 211-212.)

Another factor that complicates problem-solving is that people often struggle to use systematic tools effectively. The most common tools for solving the problem are the flowchart, the cause-effect diagram, and the Pareto chart. The most common tools are shown in Figure 11 below.

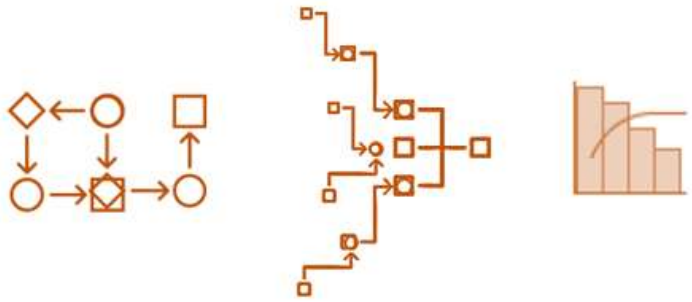

Figure 11. The flowchart, the cause-effect diagram and the Pareto chart – Modified Microsoft Excel Icons and Pareto Chart Icon.

In using systematic tools, for example, these tools that are shown in Figure 11, it is possible to take a closer look at the problem and find the root cause, which can be affected to eliminate the problem. There are several different analysis methods or tools for problem-solving, and new methods are constantly being developed. Solving the problem does not come down to a lack of methods. The most important thing is to think about which tool should be used in which situation. (Laamanen, 2001, 211-212, 214-215.)

3.2.2.4 Development Methods - Benchmarking

The third process development method is benchmarking. Benchmarking means comparison with other, often best practices. This development method allows searching for answers to questions like how much better the process could be. Organizations should continually look for opportunities to compare their core processes to identify best practices. There are several ways to compare and use benchmarking as a method. In big organizations, the comparing is best to start from internal benchmarking. The internal benchmarking contains the organization's own unit's process practice comparison. Getting data is easy and open in internal benchmarking. Most often it is not possible to benchmark the entire process, but it is possible to compare at least some parts of the process. (Laamanen, 2001, 217-219.)

Benchmarking can be a demanding form of development. It requires skills and contributions. Techniques and tools can be transferred easily, but procedures ultimately do not. Benchmarking does not have to be difficult, sometimes simple comparison can bring out an essential factor (Pitkänen, 2010, 101). One barrier in internal benchmarking can occur when compared processes are not at the same maturity level. In this situation, the risk increases, and making a comparison can be harmful to the organization. For example, if an organization at the beginning of development tries to adopt procedures for which it simply does not have the prerequisites, harm can occur. Therefore, it is important to compare the processes against those at the next level of maturity. It is also important to draw the current process before undertaking any benchmarking exercise. The benchmarking process contains six steps. (Laamanen, 2001, 219-220.) Before considering benchmarking as a development method, it is important to think about whether there is a significant improvement potential or need and whether the function is suitable for benchmarking (Pitkänen, 2010, 101). The benchmarking process by Laamanen (2001) is shown in Figure 12 below.

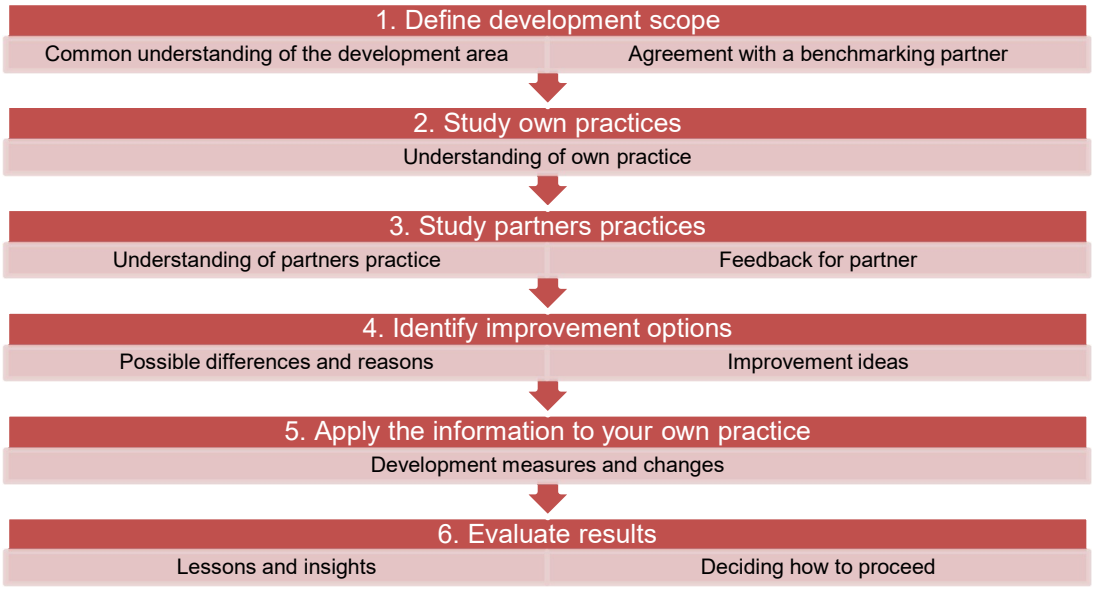

Figure 12. Development method – the benchmarking process. (Laamanen, 2001, 220)

The benchmarking development method process in Figure 12 by Laamanen (2001) has a similarity with previously mentioned process development project by Kiiskinen et al. (2002). The benchmarking development method process starts by defining the development scope and the current status analysis by studying internal practices. The benchmarking process steps three and four have common features with the process development project in step 3, Vision & Critical Success Factors. Here the main key is the same, to describe differences and reasons in findings and review the opportunities by collecting improvement ideas. The benchmarking development method process steps 5 and 6 have similarities with the process development project steps 4 and 5, when defining and implementing the new operating model. All the solutions in the current process are questioned while applying improvement ideas to own particles. At the last step of the benchmarking development method process, it is important to evaluate results and make decisions on how to proceed.

In benchmarking understanding and learning are crucial. It is not a copying process, as such an operation almost always fails. To prevent more failures, using benchmarking requires paying attention to change management. (Pitkänen, 2010, 101.) The descriptions of the current state analysis phase reveal the possibilities for change in the current processes and operating models. In the analysis, benchmarking can be used when analyzing the organization's change possibilities about other players in the field. In addition to opportunities, benchmarking shows weaknesses and problems in relation to

others, and this creates pressure for change in the organization and thus helps in setting challenging goals. (Kiiskinen et al. 2002, 49.)

Now that the second element of the existing knowledge has been described, it is time for the next, and the last element. The next section continues with a description of the element focusing on the backsourcing A/P service.

3.3 Planning Backsourcing Project

Financial services companies may adopt backsourcing for processes like accounting, risk management, or compliance. This approach enables them to gain better control over sensitive financial data and meet with regulatory requirements. (Abaricio, 2023.) However, outsourcing does not always work without problems. Many organizations have negative experiences with outsourcing, even though the starting points and goals were initially clear (Kiiskinen et al., 2002, 190). As mentioned before, backsourcing involves reclaiming specific processes, as goods and or services, that were once outsourced. (Mederos, 2021, 19). One of the most significant instances of backsourcing occurred in the U.S. in 2004 with JPMorgan Chase. Two years earlier, JPMorgan Chase had attracted considerable attention by entering into a $5 billion outsourcing agreement with IBM, one of the largest on record. However, less than three months after the agreement, the new owner concluded that the IBM deal was unsatisfactory and withdrew from it. (Enright, 2006.) At the time in 2014, this seven-year, $5 billion agreement was considered the largest ever. The backsourcing trend is growing, and as more cases emerge, the reasons behind organizations opting to backsource remain unclear. (Mederos, 2021, 19.)

It is quite rare for companies to return to an internal FM strategy (Tuokko.fi, 2017). Outsourcing relationships can sometimes fail, and it is not always the most effective option for a company (Deloitte, 2012). Typically, full backsourcing is not the optimal solution for businesses trying to recover from an unsuccessful outsourcing strategy. Organizations that leverage worth from their outsourced vendors while integrating it with their internal talents are in a stronger competitive position. (Mederos, 2021, 179.)

Mederos (2021) lists three main pillars where management accounting intersects with outsourcing. The first pillar is the increasing awareness of hidden costs associated with

outsourcing relationships. The second pillar is the decline in the quality of provided processes resulting from an ongoing emphasis on cost reduction. The third pillar that highlighting this intersection is the uncontrolled corporate politics that can adversely affect the widely outsourcing relationship. (Mederos, 2021, 20.) These pillars, mostly the first two, are related to backsourcing A/P services. These pillars are unlimited and delay the success of outsourcing dedications, serving as some of the primary reasons organizations start to revolving backsourcing (Mederos, 2021, 20). Therefore, there is a growing interest in backsourcing such functions which does not work as anticipated.

3.3.1 Defining the Backsourcing process

Backsourcing is a process that frequently involves challenge in human resources, legal, business operations, technology and vendor relationship. For instance, many organizations choose to end an outsourcing relationship upon contract expiration, often due to changes in corporate strategy. (Kaplan, 2005.) There is no single correct way to backsource A/P services; however, the backsourcing process can be mapped out by reversing the outsourcing A/P process. Figure 13 below shows one partial outsourcing process (Huuhka, 2022) in reverse.

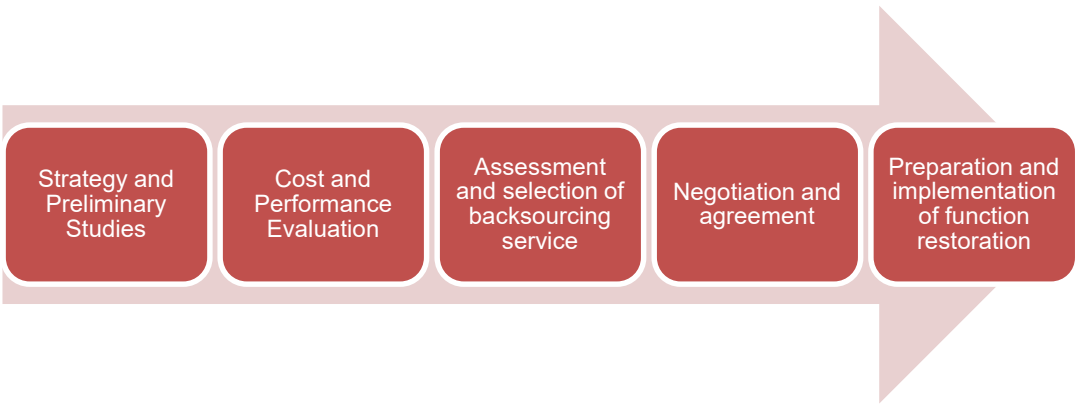

Figure 13. Outsourcing process, reversed (Huuhka 2022, 153.)

As shown in Figure 13 the process of backsourcing A/P starts defining the strategy. Defining the strategy helps identify the process at different stages, and why something is done in a certain way. At the beginning of the process, a cross-organizational work group is created, the division of tasks is defined, the group is familiarized with the project, goals are set, schedules are drawn up and the assessment of risks related to the project

is started. After defining the goals and strategy, an assessment of the costs caused by the process is made. (Huuhka 2022, 153.)

Before any decisions can be made, a company needs to consider the *backsourcing decision process*. In this stage, it is important to seek answers to questions such as what risks can be identified and how they affect, what is their probability and, how these can be controlled. (Kiiskinen et al., 2002, 101). The choice to bring operations back in-house is crucial because of its strategic impact on the organization. Managing workforce needs and taking employees' attitudes into account throughout the process is a major challenge. (Bhagwatwar et al., 2011, 170.) Moreover, there is an opinion that significant development projects should always be formed as a project. Good control provided by project management brings a perspective on process improvement. (Laamanen, 2001, 221.)

There is very small-scale of empirical evidence on how to successfully implement the backsourcing A/P process. The study by Bhagwatwar et al. (2011) examines the backsourcing of IT, but its findings can be additionally applied to backsourcing of other professional service, such as accounting or, in this case, A/P services. The study by Bhagwatwar et al. (2011) shares many of the same features as Huuhka (2022) has presented.

According to Bhagwatwar et al. (2011), when the company has made the decision to backsource, the company needs to inform the outsourcing vendor. This is the first stage of the backsource process. The total backsource process suggested by Bhagwatwar et al. (2011) contains nine stages. The backsourcing process is shown in Figure 14 below.

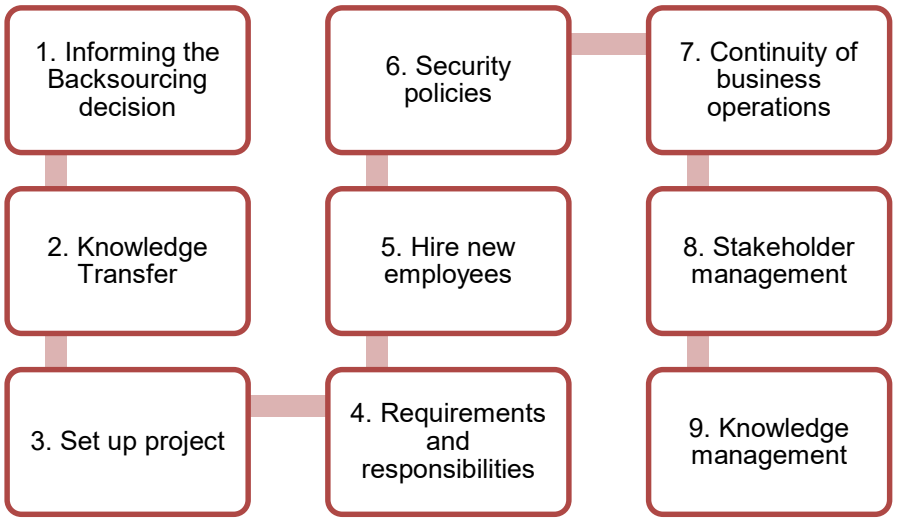

Figure 14. The backsourcing process steps (Bhagwatwar et al., 2011, 170-172).

The backsourcing processes first step is letting the outsourcing vendor know about the backsourcing decision. This step is critical where the backsourcing will cause an end to the outsourcing agreement. Communication is important to maintain the cooperative environment. At the same time ensuring that the outsourcing vendor begins to prepare for the knowledge transfer. Negotiating is crucial for the outsourcing vendor when considering termination charges in the contract. (Bhagwatwar et al., 2011, 170.)

The second step of the backsourcing process is ensuring the client has the needed components of *knowledge transfer* and documentations for the re-integration process. The company needs to qualify the specific tasks included in the backsourcing process. (Bhagwatwar et al., 2011, 170.) The knowledge re-integration process is shown in Figure 15 below.

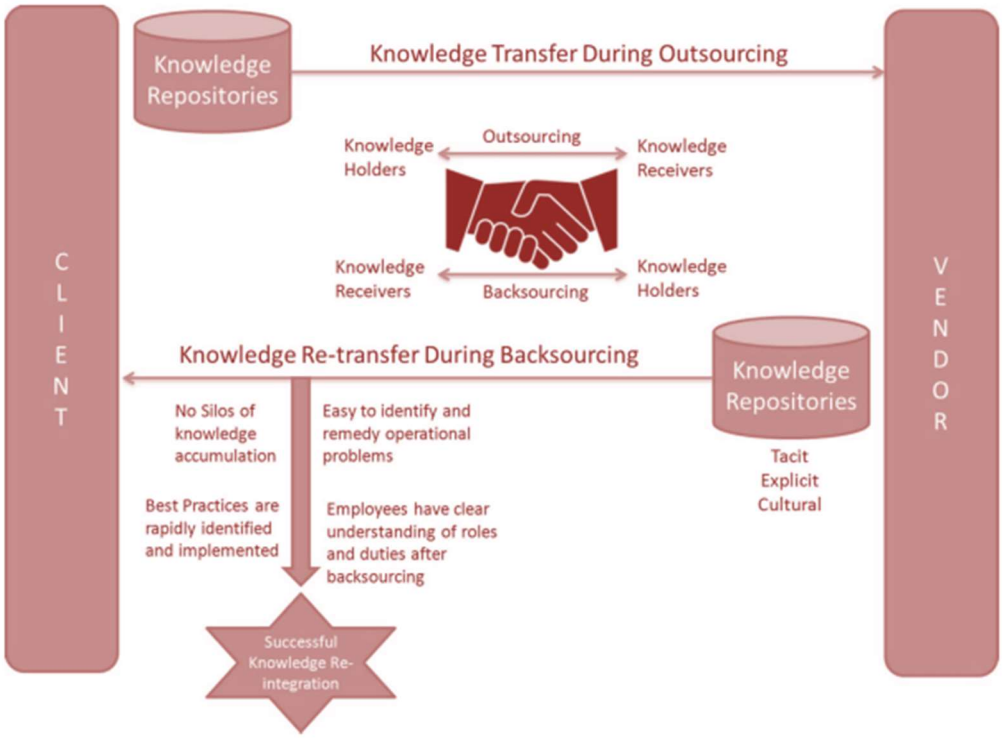

Figure 15. Knowledge re-integration process (Bhagwatwar et al., 2011, 171).

As shown in Figure 15, knowledge re-integration process contains cooperation between client, the company and the vendor, outsourcing service provider. The knowledge repositories need to be transferred and re-transferred during backsourcing.

The knowledge transfer plan, of the company needs to be ready before the outsourcing is upon implemented. The company may have had included the knowledge transfer plan as an expression in the outsourcing contract to make sure the outsourcing vendor avoids using inefficient practices. The company could request that the outsourcing vendor allocate resources just for the knowledge transfer process during the implementation of the outsourcing plan. The plan for the knowledge re-integration process should also include the different risk factors, such as personnel turnover following the transfer of personnel to the vendor. When the knowledge transfer plan has been drawn up, the company must determine the major milestones at which the progress of the knowledge transfer work will be evaluated. The vendor has complete knowledge of the various steps, which means that collaboration with the outsourcing vendor plays a crucial role. Effective communication and coordination with the outsourcing vendor are essential, as they not only help in the early identification of risks but also ensure a swift completion of the backsourcing process. (Bhagwatwar et al., 2011, 170.)

The third step of the backsourcing process (Figure 15) is *to set up a project*, i.e. to establish a project team and develop a plan. This team usually has managers, technical staff and management from both sides, from the company side and from the outsourcing vendor side. The role of this team is to recognize the main steps and responsibilities involved in process of the knowledge transfer. The backsourcing plan should be divided into segments carefully to account for all the associated risks and the effect on the company's operations in progress. If the outsourcing vendor fully understands the different aspects that were implemented during the outsourcing process, then collaboration with the vendor becomes crucial. (Bhagwatwar et al., 2011, 170.)

The next step of the backsourcing process (Figure 15) is to figure out *workforce requirements and responsibilities* within the backsourcing. At this stage, the company must ensure that the outsourcing vendor continues to support its personnel for the backsourcing effort for a designated time period until the company has successfully integrated to a satisfactory level of operation. In the outsourcing agreement, there can be clauses that define this. The company should ensure that employees receive a preliminary assessment of their roles and responsibilities during and after the backsourcing. This is crucial because the backsourcing process focuses on knowledge re-transfer, and employees play a vital role in this process. Therefore, the company must ensure that employees have a say in the whole process and that the backsourcing effort does not become overpowering for them. Neglecting this could result in employees resisting participation in company projects and seeking employment elsewhere, which are clear signs of a failure of information integration. (Bhagwatwar et al., 2011, 170.)

The fifth step of the backsourcing process (Figure 15) is related to *employee hiring* strategies. Backsourcing could involve hiring new employees with competence in that zone to oversee the in-house activities. This is a crucial factor when evaluating the costs associated with backsourcing and developing an early plan for hiring new works. A key objective of backsourcing is to achieve benefits in costs, and bringing in new hires, along with re-integrating former employees, will incur expenses. Thereby, creating an early strategy for hiring new personnel and re-hiring transferred employees is essential when assessing backsourcing-related costs. (Bhagwatwar et al., 2011, 171.)

The sixth step of the backsource process (Figure 15) is about developing *security policies*. For systems that are transferred back from the vendor, it is essential to have

data security procedures implemented, such that the company has appropriate system protection and techniques to protect passwords. (Bhagwatwar et al., 2011, 171.)

In the seventh step of the backsourcing process (Figure 15), *the continuity of business operations*, it is essential to take care that the backsourcing process is not disturbing the daily operations of the company. The backsourcing process is anticipated to be lengthy, often spanning several months. As a result, the backsourcing plan is likely to have both short-term effects on financial statements and potential impacts on the company's operational efficiency for a limited time. In its own, the backsourcing process can be regarded as a project. Standard project implementation methods, such as phased implementation or implementation of a pilot project, could be utilized to simplify the backsourcing process. (Bhagwatwar et al., 2011, 171.)

In the eighth step (Figure 15), it is essential to comprehend which *the stakeholders* are impacted by the decision, and this is related to the eighth stage of the backsourcing stage, stakeholder management. Seeking feedback from stakeholders regarding the decision and letting them know about the effects of the backsourcing decision will help the stakeholders feel involved in the main process. With proper communication with stakeholders, the decision is ensured, and the process can be implemented with minimum disruptions. The purpose is also to make sure that the stakeholders are satisfied with the abrupt change in strategy. (Bhagwatwar et al., 2011, 171-172.)

The last step of the backsource process (Figure 15) is *knowledge management*. Besides gathering knowledge, the company should focus on developing the lessons learned and establishing communication channels between itself and the outsourcing vendor. Investing in information management during the backsourcing process will be pay off. (Bhagwatwar et al., 2011, 172.)

3.3.2 Defining Process of Backsourcing A/P Services

As in any project, the risk to the success of backsourcing is also poor planning of abandoning outsourcing. In the backsourcing process, the plan must be made in as much detail as possible. It must include a budget and schedule estimate, a profitability calculation, and measurable key figures. The planning must also take into account the analysis of risks and the clarity of the goals, and then everyone knows what is being done. (Severa, 2019.) The level of planning needed for successful backsourcing is not

significantly different from that required for successful outsourcing (Tompkins, 2006). According to Tompkins, the process, as it should be applied to backsourcing, includes the following steps are show in Figure 16 below.

1. Define your backsourcing team.
2. Define the backsourcing requirements.
3. Develop the backsourcing business plan and backsourcing schedule.
4. Assess skills and readiness to successfully backsource.
5. Establish a cooperative relationship with the current provider and define communication protocols.
6. Clarify roles and responsibilities and the legal relationship with the outsource provider.
7. Begin the phased approach of bringing the business back in-house.
8. Maintain a relationship with the outsourced provider of teamwork, open communications, cooperation, and collaboration.
9. Close out the relationship by handling all loose ends and details.

Figure 16. The process of backsourcing (Tompkins, 2006.)

In Figure 16, the process of backsourcing according to Tompkins (2006) starts with defining the team and requirements. Then begins the business plan and the backsourcing schedule development. After evaluating skills for successful backsourcing, it is necessary to establish a collaborative relationship with the service provider and define roles and responsibilities. Then begin the phase of bringing the business back in-house maintaining an open and cooperating relationship with the outsource provider. The final step is to wrap up the relationship by addressing all the minor details.

3.4 Conceptual Framework of This Thesis

This sub-section contains a figure representing Conceptual framework of this thesis. The three levels of the Conceptual framework main elements with selected tools & sub-elements, and key references are visible in Table 3. below.

Table 3. Conceptual framework of the Backsourcing Accounts Payable thesis.

Accounts Payable	Business Process Development	Backsourcing
Process Introduction - Processing of the purchase invoice Responsibilities & Roles - Supplier Register - Purchase ledger PL, payment, and reconciliations (Schaeffer, 2004) (Koivumäki and Lindfors, 2012) Benefits & Risks of In-Housing (Lehikoinen and Töyrylä, 2013) (Huuhka, 2017) (Corporate Finance Institute, 2021)	Business Process (Kiiskinen et al., 2002) (Berman, 2014) Process Development - Developmet Process (Kiiskinen et al., 2002) (Laamanen, 2001) Process Development Methods - Process Planning & Performance Improvement - Problem Solving - Benchmarking (Laamanen, 2001) (Kiiskinen et al., 2002) (Pitkänen, 2010)	Backsourcing process (Mederos, 2021) (Huuhka, 2017) (Kiiskinen et al., 2002) (Bhagwatwar et al., 2011) Backsourcing A/P services (Severa, 2019) (Tompkins, 2006)

As seen from Table 3, the conceptual framework contains three main elements expanded with the selected tools, concepts, and other sub-elements relevant to the thesis. The main three elements are *Accounts Payable, Business Process Development* and *Backsourcing.* The conceptual framework begins with an *A/P process introduction*. It is important to understand what A/P includes, how business processes such as A/P can be developed, and the most challenging part, what is backsourcing and how to backsource processes like A/P. Each theme contains clear references to the key sources that are contributed to this conceptual framework.

The first element is *A/P*. The A/P process main function is to process the purchase invoices and transfer them to the ERP system. The A/P process contains several responsibilities and therefore different roles. Managing the supplier register, including bank details and accounting codes that affect the company's accounts payable and income statement, are important steps in the A/P process. The A/P process contains reconciliations, for example between PL and accounting. Many benefits that speak for in-housing and several risks must be considered when doing A/P in-house.

The second element is *Business Process Development*. This contains best practices and literature suggestions for defining business processes, process development, and its methods. Three main process development methods suggestions are PPI, problem-solving and benchmarking.

The third element of the conceptual framework is *Backsourcing*, the most challenging part. The backsourcing process is not individualized, but as mentioned before it can be seen as a reversed process of outsourcing A/P services.

This logic behind A/P, Business Process Development, and Backsourcing is visible in the three parts of the Conceptual framework, as each part contains relevant concepts and tools that help create the Proposal, in Section 5. As mentioned before, process development starts from the current state analysis of the processes, in this case, the current state of the A/P process in the case company. The next chapter describes the current state of the outsourced A/P process, including business process development using the most suitable development method, benchmarking from other units in the territory.

4 Current State Analysis of Outsourced A/P Process at the Case Company

This section discusses the results of the current state analysis based on the findings from semi-structured interviews, workshops and other source material. The section starts by providing an overview of the outsourced A/P service in the case company. This is followed by a description of best practices and other findings from selected D and M units which leads to identifying the current problems in the processes. Finally, the section summarizes the findings from the current state analysis, listing findings that need to be taken under discussion for planning the backsourcing A/P. This helps the case company understand what knowledge is missing for in-housing A/P.

4.1 Overview of the Current State Analysis

This section contains a brief description of how the current state analysis is conducted.

The current state analysis goal is to understand the current outsourced A/P service process and compare it to other units' in-housed A/P processes. The first step in the current state analysis is to draw a process map of the A/P services using the service agreement between the case company and the outsourcing service provider. The agreement sets the base for the process flow. The second step is interviewing the former and current outsource A/P team members to understand the process in more detail and find what these process steps contain in practice. At the same time, there can be some process steps that are not executed as agreed or they are not included in the service anymore. The third step contains interviews and workshops of other units' in-housed A/P team members.

4.2 Mapping of the Current Outsourced A/P Processes of the Case Company

As mentioned before, the agreement between the case company and the outsourcing A/P service provider sets the base for mapping the current A/P process. The agreement was signed over ten years ago, and there is a possibility that some details may have been changed during the time.

In the offer of outsourced A/P agreement, three main areas are identified: receiving e-invoices and scanning paper invoices, recycling of purchase invoices, and handling PL.

These main service areas are explained with more specific information in the agreement's service specification appendix. Additionally, it defines what is included in the service and which parts the service providers or the case company are responsible for. The confidentiality agreement of outsourced A/P services and its appendix are mapped to a high-level process in the chart below in Figure 17.

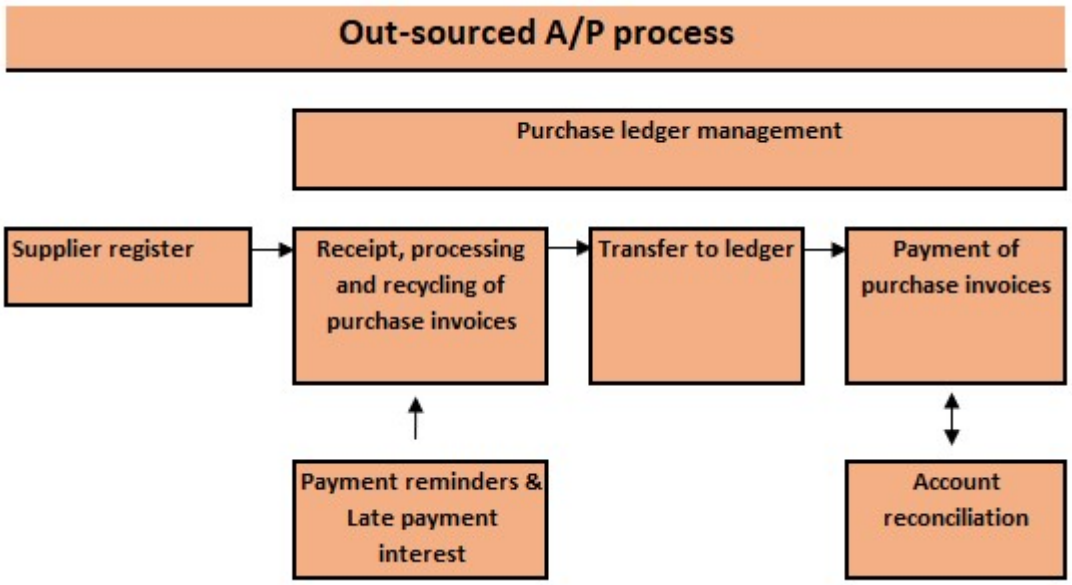

Figure 17. High level process chart of outsourced A/P process based on the agreement between the case company and outsourcing service provider.

As shown in Figure 17, the base process contains familiar elements from the A/P process introduction in chapter 3.1 Accounts Payable Process Introduction in Existing Knowledge. Areas can be shared between the supplier register and PL management. The PL management contains receiving, processing, and recycling of purchase invoices and transferring them to the ledger and paying. Aside from these, the process involves handling payment reminders and late payment interest cases, as well as account reconciliation. Next, the sub-sections below describe the current state of the A/P process parts in more detail.

As mentioned before, the case company receives 32-40 thousand purchase invoices per year. 59% of these purchase invoices are related to the case company's core business, to the business model of experience service. 15% of the purchase invoices are related to concessions products and the rest are general business-related purchase invoices. The outsourced A/P team includes two permanent and another two backup resources. One of the permanent resource's primary responsibilities is to take care of the A/P daily

tasks of the case company. The other permanent resource is in charge of handling the core business-related purchase invoices which bring the largest share, 59% of the purchase invoice volume.

4.2.1 Supplier Register at the Case Company

The SR maintenance is the first element of the outsourcing agreement. It is included in basic pricing. Establishing a new supplier is part of the SR maintenance. The SR maintenance includes checking the VAT and advance collection register entry of the domestic supplier. This is done in the establishment phase and as a continuous service. The SR is inside of the ERP system and includes basic information about suppliers. To add a new supplier, the supplier must be first added as a company into the SR. The required information is shown in Table 4.

Table 4. New supplier details.

1. Supplier details	2. Supplier data details
Company ID	Supplier Category
VAT number	VAT/tax code
Company Name	Payment terms
Address	Currency
Post code	Bank account check type (IBAN)
Town/City/State	Bank account number
Country	Swift-code (Society for Worldwide Interbank Financial Telecommunications)
Trading Area	

Table 4 lists the details that are needed to create a new supplier company for the SR. After the supplier is created as a new company with supplier details (column 1), then under the supplier company ID, which is usually the same as the supplier's VAT number, supplier data details (column 2) can be added. Supplier data details include payment information.

The SR management is in the ERP, and depending on the ERP user rights, users other than just the SR manager can browse the data. The SR data is transferred to the ERS with a scheduled data transfer that takes place every morning. Data transfer can be done also manually if needed. Inside of the ERP are built specific SR functions, that generate the SR data transfer files to the server. Through the interface between the ERP and the ERS, the material can be read and retrieved from the server.

4.2.2 Receiving, Processing, and Recycling of Purchase Invoices

In the ERS, the outsourced A/P team ensure that the received purchase invoice basic details are filled correctly to the system, and the outsourced A/P team checks that the VAT is set correctly. The outsourced A/P team then adds the accounting codes, for example, the accounting account and the cost center number for the purchase invoice. Under several suppliers, there are automatic account code settings. The tasks mentioned above are part of the processing of purchase invoices. The recycling purchase invoices part follows agreed rules which the case company updates regularly. The case company informs what kind of purchase invoices or which supplier's purchase invoices go to each reviewer. If there is no information about who has ordered the purchase and the recycling rules do not tell who should review the received purchase invoice, the outsourced A/P team transfers it to the local finance team's A/P contact person of the case company.

As mentioned before, the outsourced A/P team uses ERS chosen by the case company. The case company has their own agreement with the ERS. Agreement between the case company and the ERS provider includes receiving, processing and recycling of purchase invoices, and transferring them to the ERP. Most of the purchase invoices of the case company arrive as e-invoices. In 2023 almost 70% of purchase invoices arrived as e-invoices and the other 30% came from scan service, as the Figure 18 shows.

Purchase Invoice Type	Items	Share (%)
E-invoice	22421	68.88
Scan & Capture Service	10030	30.82
PDF	98	0.3

Figure 18. The ERS Purchase invoice type report for 2023 of the case company. Retrieved 20/02/2024.

Figure 18 shows that most of the purchase invoices come as an e-invoice. Scanning service includes paper invoices which are scanned as PDF files, and direct PDF files that come by email. The 0,3% of PDF purchase invoice types are invoices that are

manually imported to the system by a person. This scanning service is separately agreed with the ERS service provider.

The case company has a regular break on the second workday of each month. After this day, the case company starts its monthly financial reporting, and it requires that A/P is closed. The monthly break schedule includes the periodization rules and practices that the A/P team has agreed to follow according to the agreement. The monthly break requires attentiveness and a fast pace of work. There is no room for mistakes.

4.2.3 Payment Reminder Handling

According to the outsourcing agreement between the case company and the outsource provider, if the case company receives a payment reminder or reminder that contains a late payment interest request, the outsourced A/P team is checking whether the reminder or the interest is appropriate. If the case company has not received the original purchase invoice at all, the outsourced A/P team requests a copy from the supplier. If the original purchase invoice is in the ERS, but not fully processed yet, the payment reminder is addressed to the person who has the original purchase invoice but also to the A/P contact person. If the purchase invoice has already been paid after the sending date of the payment request, the outsourced A/P team delete the payment request.

The essential payment reminders and the interest request are forwarded to the local finance team’s A/P contact person of the case company. This person reviews the payment reminder. The local finance team’s A/P contact person’s responsibility is to go through the purchase invoice process history and reveal the reason why this purchase invoice was paid late. The purpose is to determine whether the reminder and late fees are appropriate and what caused the late payment. The matter is reviewed with the original handlers of the purchase invoice. Usually, the users have reviewed or approved the purchase invoice too late, which has led to a delay in payment. In this case, notice and interest on late payment are appropriate. Anyone who has the purchased invoice reviewer rights or approving rights has their responsibility to perform needed actions in ERS. The ERS shows and reminds the user by email of all the purchase invoices whose due date is soon; this means it is the user's responsibility to handle the purchase invoices on time.

4.2.4 Transferring the Purchase Invoices to Ledger

When the purchase invoices are reviewed and approved, their invoice status is changed to recycled and they are ready to be transferred to the payment system, the ERP. Outsourced A/P team transfers purchase invoices to the ERP's A/P daily. Before they transfer the purchase invoices, the outsourced A/P team does several pre-checks. They check from the workflow control that all the purchase invoices have the status "Processed." The checks are done especially with foreign purchase invoices, where the VAT codes are checked. The accounting posting mode in the purchase invoice needs to be mature after reviewing and approving. In the ERS the posting status needs to be complete. This means that all the purchase invoices have their accounting codes. In the ERP of the case company, the payment system does not allow the transfer of incomplete purchase invoices. The outsourced A/P team fixes the accounting codes or if the outsourced A/P team do not know how to fix them, and they return these type of purchase invoices to the reviewer and approval cycle.

When the purchase invoices posting status is complete and the status is processed, the purchase invoices are ready to be transferred. During the transfer of the purchase invoices to the PL, the outsourced A/P team reconcile how many purchase invoices were transferred from the ERS to the ERP. This reconciliation is done by comparing the transfer journal from ERS to imported purchase invoices at the ERP. Each time when purchase invoices are transferred to the ERP, the ERS creates a transfer journal with time and date information by a person who runs the transfer. The ERS informs if there is an error in the transfer. Successfully generated transfer journal has the same timestamp in the ERP. The transfer journal in ERS includes all the exported purchase invoices with accounting voucher numbers, and information such as supplier name and the SR number and currency amount of the purchase invoice. When successfully transferred purchase invoice piece quantity and total currency amount are equal, the transfer has been completed. This is the reconciliation phase of the current outsourced A/P process.

4.2.5 Payment & Account Reconciliation

When purchase invoices are paid on behalf of the outsourced cash service department, the outsourced main accounting team member verifies the payments from the bank account statement. This person clears the payment against the purchase ledger. Even though this part was written under the A/P team's tasks in the agreement, it turned out

to be the main accounting team's responsibility. Therefore, this part of the process is left out of the current state analysis, as this thesis is focused only on parts that are done by the outsourced A/P team. More details are presented later in section 4.3.4.

4.3 Findings from the Current State Analysis - Benchmarking

This section contains comparisons between units D and M. Comparing the current outsourced A/P process with the in-house A/P process of units D and M highlights challenges and points out findings that need to be taken into consideration before planning of the backsourcing can begin. The benchmarking development method chosen in this section provides support to create a better process.

Units D and M operate in the same business field, and both units offer the same services. The case company has 17 places of business. Unit D has 35 places of business, and Unit M has 8 places of business. Unit D receives over 80 thousand purchase invoices per year. Unit M receives 18-20 thousand purchase invoices per year. These details are presented below in Table 5.

Table 5. The purchase invoice amounts in the case company and other units (based on the analysis of interview notes).

	Places of Business	**Purchase Invoices per Year '000**	**avg. PI/PB**
The case company	17	32-40	2,12
Unit D	35	80	2,29
Unit M	8	18-20	2,35

As shown in Table 5, the volume of purchase invoices is almost the same, average purchase invoices per place of business (avg. PI/PB) is between 2,12 and 2,35 thousand. It is important to note that unit D is significantly larger than the case company. These places of business do not include any supporting teams or departments, such as administrative departments. As the relative size between the case company and other units has been presented, the next chapter will explain more specifically all the findings in each of the three sub-processes.

4.3.1 Findings Related to Supplier Register

In the case company, the person who managers the SR and advance collection register is a separate person, who does not otherwise work in the outsource A/P team. This is illustrated in the following quote by Interviewee 2:

> Yes, this person takes care of the advance collection register. As in the financial statements meeting this was pointed-out that by doing this in this way, it is ensured that just any bank account numbers are not entered there, that there are always separate persons checking these (bank accounts and invoices).
> *(Interviewee 2)*

According to a former A/P team member (Interviewee 1), the outsourced A/P team informs by email the SR person when the case company has a purchase invoice from a new supplier. The SR manager then adds this new supplier to the ERP system or updates the information of an existing vendor. However, this method seems to have changed since the former A/P team member (Interviewee 1) has been working in the outsource team as the following quote by Interviewee 2 illustrates:

> It has not been sent by email. I save the image of the invoice in a separate folder, where this person (supplier register manager) can look at it and add it. In the same way, bank account number changes are also made. We discuss via e-mail only about foreign suppliers, whether there is all the necessary information to add a new supplier.
> *(Interviewee 2)*

The interview with Interviewee 2 confirmed the supposition that the outsourced A/P team members do not have any access to the SR. The outsourced A/P team members' ERP system admin rights are limited. They do not have the rights to that part of the ERP system.

In unit M, the supplier management is currently done in the same way as in the case company. During the interview of Interviewee 3 (unit M A/P person) it was determined that unit M has part of their A/P process outsourced. Unit M's A/P person cannot add or change any the SR information by themself. Rather, the work is done by outsourced SR manager.

In unit D, the supplier management is done fully in-house. According to Interviewee 4 (Unit D's A/P person) before the A/P team person adds any new supplier, the person does some background controls. The person checks the supplier from the local registered business system if the supplier company is legal. If the supplier is from the

European Union (EU), the A/P team person checks the VAT number from the EU-site. From the EU-site, the person can check that the supplier company has a legal VAT number. With all new local suppliers, unit D can also reconcile the bank account number to verify that the bank account details belong to the supplier. Verifying bank accounts is available only for local companies and this cannot be done with foreign companies. When all background checks are done, unit D's A/P person adds the new supplier to the register. Adding a new supplier causes a workflow in unit D's ERP system. The new supplier must be accepted by another person. This other person checks again the information and then accepts the new supplier to be added to the SR. The same workflow happens if there are any changes done to the suppliers' details, for example, change of name or bank account.

One notable discovery regarding the SR is that there should be more than one person who could add a new supplier or update the information. This is illustrated in the following quote from unit M by Interviewee 3:

> Everybody should be able to register a new supplier and somebody else from higher up in the organization should be responsible for approving this supplier. *(Interviewee 3)*

As a summary of findings and benchmarking the SR process between the case company and other NE units, Table 6 shows the combined results of differences.

Table 6. A/P team members amount and SR comparison between the case company and other units.

	A/P team members	**Supplier register**
The case company	2 and more	Outsourced
Unit D	1	In-house
Unit M	1+SR	Outsourced

As shown in Table 6, only the unit D has in-house SR management. The process of adding new suppliers or changing any details in the SR at unit D is done by an A/P person and approved by another person who works in the finance team. The table also shows that units D and M have only one person working under the A/P team. This means that neither unit has backup personnel in case something happens, but in certain aspects, both units can outperform each other.

4.3.2 Findings Related to Receiving, Processing, and Recycling of Purchase Invoices

One interesting finding from an outsourced A/P team member regarding processing the purchase invoices of the case company is that the purchase invoices may contain old references, for example the name of an old employee. This may confuse the outsourced A/P team how to set the purchase invoice to recycle. The case company should update reference information with the suppliers to make outsourced A/P team members process them efficiently. In unit D there is a solution for automatic recycle flow by using internal reference numbers. As the following quote by Interviewee 4 illustrates:

> New invoice is automatically routed to the person who has ordered it. We use (two letters, changed for this thesis to be WQ) WQ and four digits, and each person who works in the ERP has this WQ-number. Me, as the A/P person, I only receive invoices that are lacking WQ-number.
> *(Interviewee 4)*

Unit D's ERS controls and recognizes the WQ-numbers from the purchase invoices. All the purchase invoices should have the WQ-number. When someone in unit D orders something from any supplier, the order person informs the WQ-number. In ERS, the WQ-number includes the recycle route. The WQ-number can be seen as a reference detail. This reference sets who the user is that will be reviewing the purchase invoice. All ERS users have their own WQ-number. Still, according to the unit D A/P person, 5% of the purchase invoices are without the WQ-number. This means that approximately 10 purchase invoices per day are sent from the purchase invoice scanning service via email to the unit D A/P person. The same process happens if the outsourced scanning service cannot find all the needed information from the purchase invoice. For example, if the scanning service does not reconcile the VAT number from the scanned invoice picture, even though the VAT number is there, but the service just did not see it on the first look, the unit D's A/P person needs to add this purchase invoice to the system manually. All these errors and all the purchase invoices without the WQ-number cause manual work for the unit D's A/P person. In addition, the purchase invoices without WQ-numbers are raised with the supplier. This process is set up to make sure that next time the supplier adds the needed WQ-number to the purchase invoice. Solving these kinds of errors is the unit D's A/P person's daily tasks.

In the unit M, all the purchase invoices are released to ERS for review and approval cycle including all the needed accounting codes. The purchase invoice has already been filled with the cost account, cost center, etc. This work is done by the unit D's A/P person. The

unit D's A/P person fills out all accounting information for the unit M's purchase invoices. The unit M's A/P person is helping the unit D's A/P person every day. This is a great finding to prove the organizations of the case company's way of working effectively and combining work tasks between different units. The reviewer user in the unit M only ensures that the purchase invoice is correct. This is the same way that the case company's outsourced A/P team handles the purchase invoices. However, all unit D's purchase invoices are released to ERS for review and approval cycle without any accounting codes. This means that the reviewer person in the unit D should know exactly which accounting account the expense of the purchase invoice should go to. This is a significant finding received from the unit D's process. Interviewee 3 from the unit M, who works closely with the unit D was able to describe the process as the following quote by Interviewee 3 illustrates:

> What they do in … (unit D), they send all the invoices without any cost account to the … (reviewer person), so the … (reviewer person) needs to put the cost account etc. In my opinion this is a waist of their (reviewer persons) time, because ... (reviewer persons) should not do this.
> *(Interviewee 3)*

The unit D's A/P person (Interviewee 4) also agrees to the quote by Interviewee 3. As the following quote by Interviewee 4 illustrates when asked "Doesn't it take a lot of time when the reviewer has to add account codes for each purchase invoice manually?"

> Yes, it does. We have discussed that should we do it like in … (Unit M).
> *(Interviewee 4)*

In unit D, the core business-related purchase invoices are automatically matched with purchase order (PO) numbers. This means that these purchase invoices, almost sixty thousand purchase invoices, do not need to be account-coded manually by any person. The PO number automatically adds accounting codes and accepts the purchase invoice.

In the case company, the core business-related purchase invoices are manually coded and released to review cycle with accounting codes, but the invoices are accepted by using the ERS agreements feature. Supplier-specific agreements are approved by approver, and several individual persons add purchase invoices for supplier-specific agreements. The agreements in ERS automate and speed up the processing of recurring purchase invoices.

4.3.3 Findings Related to Payment Reminder Handling

As mentioned before, in the outsourcing service agreement of the case company it is stated in part of the handling payment reminder that if the case company does not receive the original purchase invoice, the outsourced A/P team requests a copy directly from the supplier. During the semi-structured interview with an outsourced A/P team member, it was revealed that this part of the process was lost during the personnel transfer. This transfer of information remained unclear due to an urgent personnel change. This happened during the change of outsourced A/P team member replacement between the former and the current A/P team member.

In both units D and M, the payment reminder handling process is done in-house by an A/P person, and the process is the same. The A/P person finds the original purchase invoice from the ERS and requests a purchase invoice copy from the supplier if it cannot be found. If the original purchase invoice is still in the reviewing and approving cycle, the A/P person contacts the reviewer or the approver and asks if there are any issues with the purchase invoice. The A/P person informs the reviewer or the approver that the purchase invoice has had a reminder and then replies to the supplier providing information about why the payment is late and when it is getting paid. For example, if unit D receives an interest invoice, the A/P person checks what has happened with the purchase invoice and who is responsible for the interest costs. The cost of interest is booked for that cost center which was responsible for paying the purchase invoice late. Unit D's A/P person has time and knowledge to investigate why and by who the payment was done late, in contrast to the A/P contact person of the case company. It seems that unit D has more control of the purchase invoice cycle regarding invoice reminders and interest invoices than the case company has.

In unit D, the A/P person spends several hours on a weekly basis to check the purchase invoice recycle in the ERS, mapping out whose purchase invoices are idle in the workflow. The A/P person then contacts these reviewers or approvers and kindly reminds them to review or approve their purchase invoices. In the case company, the ERS sends daily reminders for all users and highlights the purchase invoices that are coming due soon or are already overdue. The outsourced A/P team or the internal A/P contact person of the case company does not have a stated protocol of control or monitoring the purchase invoice cycle.

4.3.4 Findings Related to Transferring the Purchase Invoices to Ledger

As mentioned before, paying purchase invoices is not under the A/P team of the case company process. This part was written under the A/P team's tasks in the agreement, and it turned out to be the main accounting team responsible. But this still is a valuable finding. This is illustrated in the following quote by Interviewee 2:

> We do not handle payments. The cash services take care of it. Our (A/P team) work ends when the invoices have been transferred to accounting. I don't take the payments to the end of the purchase and that's where my knowledge ends. *(Interviewee 2)*

This finding impacts the mapping of the current process flow. Therefore, the process flow of outsourced A/P stops after the phase Transfer to the ledger. The updated process flow is shown below in Figure 19.

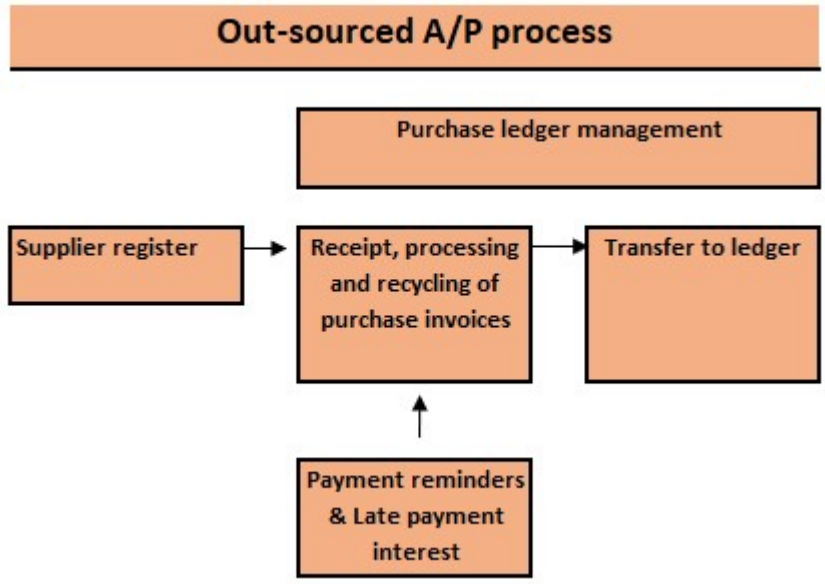

Figure 19. Updated high level process chart of outsourced A/P process.

As Figure 19 shows, the outsourced A/P process ends after the purchase invoices are transferred to the ERP. This is the reason why this thesis leaves the payment process out of the thesis scope.

Another important finding made during the process of mapping of outsourced A/P was related to the date of receipt in accounting. During the process it was pointed-out that the purchase invoices have not received a receipt or a posting date according to the

transfer date. Instead, the purchase invoices have received a receipt date according to the invoice date. An example to illustrate this issue: the purchase invoice dated 15.1. Transfer from the ERS to the ERP 20.1. This purchase invoice should have a receipt date according to transfer day, 20.1. not by the invoice date. In the case company, a receipt date is the transfer date. This change of process has been again a lack of knowledge transfer during outsourced A/P team members.

The third finding is related to the transfer of purchase invoices. As mentioned before, in the case company when the purchase invoices are reviewed and approved, the invoices are ready to be transferred from A/P into the PL of ERP. Outsourced A/P team transfers purchase invoices to A/P daily. This phase in the process is done manually. In unit M and also in unit D, both their company's ERS automatically transfer purchase invoices to PL whenever the purchase invoices are approved. The phase of transferring purchase invoices to the payments system does not require a person to act. This kind of automatic feature saves time, and the PL in the ERP is always in real time. During the change of month, the automation is stopped and managed precisely to make sure that the purchase invoices go to the correct month. If the purchase invoice has a date of an already closed month, then the purchase invoice date must be manually edited and after that the ERS system allows for the transfer of the purchase invoice to the payment system. This additional manual phase is illustrated in the following quote by Interviewee 3 from unit M:

> The only thing what I need to do is, if there are invoices, say now in a start of December there was invoices which has the date of November on it, they stopped because they have wrong date, the books of November are closet, then I need to manually change them for December. … We do that today; we manually change the date if the accounting period is closed.
> (*Interviewee 3*)

In the case company, this is not an issue. As mentioned before, a receipt date is the transfer date. This means that even if the accounting period is closed and the purchase invoice date is in the closed period, the purchase invoice has the receipt date from the transfer date. This and all other findings need to be taken into consideration when building the proposal. The next chapter summarizes all the findings.

4.4 Summary of the Current State Analysis Results Outsourced A/P Process at the Case Company

This section summarizes the results of the current state analysis pointing to the main areas to consider in the process under investigation.

As discovered before, the knowledge transfer between outsourced A/P team members has been defective with regard to payment reminder handling and the transfer date. The outsourced A/P service providers should take care that the knowledge transfer inside A/P team member changes is complete. However, these problems were immediately taken care of following the interviews and since then the outsourced A/P team members have been handling the payment reminders as agreed in the contract of the case company and making sure that the purchase invoice has a posting date according to the transfer day.

One of the biggest strengths of outsourced A/P is that the outsourced A/P team has two main team members, and two backup personnel, as mentioned before. Depending on the time of the month the outsourced A/P team can handle the A/P of the case company with the two team members. If there is sick leave or holidays, the outsourced A/P team always has a backup plan that covers the absence of a main team member. During the interview with unit M A/P person pointed out one problem of the in-housing A/P process. This is illustrated in the following quote:

> Main problem is if you backsource something to smaller company, like we have done (Unit M) there is a fewer people knowing how to do this. Responsibility is on fewer people.
> *(Interviewee 2)*

And during the benchmarking of A/P team member staffing between the case company and the other units, it was pointed out that unit D and M have combine work tasks between different units. As mentioned before, unit D's A/P person fills out all accounting information for the unit M's purchase invoices, and the unit M's A/P person is helping this person every day. Related to the previous quotation, unit D's A/P person illustrates the same issue by the following quote:

> I don't have any backup at the moment. When I have a vacation, I don't have backup. My vacations are not really vacations.
> *(Interviewee 4)*

This means that when the unit D's A/P person is on vacation, no one is doing this person's tasks (purchase invoices without WQ-number, new supplier, etc.) during that time. In the outsourced A/P team there is always someone to back up any person. However, it is important to understand that during slow periods, neither of the outsourced A/P team members work even half a day on behalf of the case company. The outsourced A/P main team member has two more client companies' A/P to work with, but the case company is the biggest one. The workload is divided in such a way that the workdays are humane. Could one internal person handle the A/P of the case company in-house? The answer to this question is illustrated in the following quote by Interviewee 2:

> Yes, probably even one person could survive this workload. Sure, the turn of the month could be challenging. That would be a time when you would need help. *(Interviewee 2)*

When the A/P is outsourced and the service provider provides extra hands, the case company saves time for other things. An outsourced A/P brings certainty to unclear matters when there are more people involved in the entire process. A good example of this is the SR management.

A weakness that needs to be pointed out is that the outsourced A/P main team member has never worked with the ERS used by the case company. The case company and outsourced service provider should work together and find out all the missing features that the ERS holds. The question is about who is responsible for getting all the benefits that the program could provide. As mentioned before, the ERS is the responsibility of the case company, and the outsourced A/P team has agreed to use any program that the case company sets. This is related to the lack of personal relationship with the case company. Outsourced A/P is providing agreed services, without personal passion to develop the A/P process of the case company. Outsourced A/P team is simply doing what is agreed upon.

A valuable finding to bring up under consideration is that the A/P team does not always keep up with all the personnel changes in the case company. The outsourced A/P team follows the purchase invoice recycle instructions that the case company has provided to them. Sometimes the A/P contact person of the case company can forget to inform the changes since the information is already familiar within the case company. Personnel change information could be more fluent if A/P were in-housed. In any case, there is not a big threshold between the outsourced A/P team and the case company, and hereby

the outsourced A/P can easily contact when necessary to the A/P contact person of the case company. All these findings can be combined as shown in below in Figure 20.

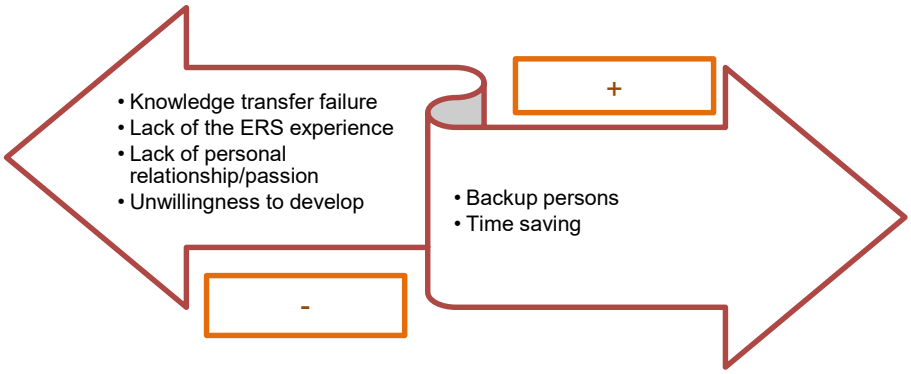

Figure 20. Summar of findings.

As shown in Figure 20, there are several small findings that are speaking against (to the left) for in favor (to the right) of the current state having the outsourced A/P in the case company. These findings can be also called risks and benefits. However, as the current state analysis' main goal is to find out things to consider and find out where the case company process needs development, the next chapters describing the key findings and considerations in more detail.

4.4.1 Key Findings & Considerations from Current State Analysis of the Outsourced A/P Process at the Case Company

The key finding that the current state analysis pointed to is that the outsourcer A/P process is a laborious and manual process, where are many components or process areas to improve regardless of whether the A/P is outsourced or backsourced. These components and process areas are described next in more detail.

An important discovery is related to the ERS. The case company should keep using the same system and learn more about how to use it. During the interview of the unit M's A/P person, it was found that the case company is not using all the hidden features. The unit M's A/P person has been using the same ERS system in a former company and this person mentioned several things that the case company could start to use and benefit from. There are some features in the system that the case company is not aware of, and

the case company should have time to explore the system more. This is illustrated in the following quote by Interviewee 3:

> You should definitely take a course of …(ERS) or contact to … (outsourced service provider) and ask do they have any specialist in … (outsourced service provider). We would like to do this and this, is it possible?
> *(Interviewee 3)*

The case company should focus more on receiving purchase invoices as an e-invoice. As mentioned before, the case company received during the year 2023 70% of their purchase invoices as an e-invoice. The case company would benefit from the ERS automatic accounting coding more effectively if the system could receive a bigger portion of purchase invoices as e-invoices. As the following quote by interviewee 3 illustrates, the bigger portion is possible in this business field where both the case company and unit M operate:

> 98% of our invoices we receive by e-invoice.
> *(Interviewee 3)*

Both units D and M have stopped receiving any paper purchase invoices since March 2023, which means that they only accept e-invoices and PDF invoices. Paper and PDF purchase invoices are processed manually. This is time-consuming and error prone. Electronic processing of purchase invoices makes the process faster and less prone to errors. The electronic processing of purchase invoices is easier and more efficient. Every invoice row of each e-invoice can be set under the accounting code rule. The line or row-specific accounting code rules cannot be implemented for PDF invoices since the invoice line information cannot be read without an algorithm. Some of the core business-related purchase invoices arrive as PDF, and these are one by one handled manually. If the case company could make the core business-related purchase invoice process simpler and automatic, backsourcing would be easier. Perhaps the PO-system would help to make the purchase invoice recycle process quicker. And also the unit D's called the WQ-number method is something that the case company should consider. If the WQ-number is suitable, another way to consider is to make more purchase invoice agreements in the ERS, to speed up the approval of invoices.

Table 7 summarizes all the benchmarking findings regarding the A/P process parts.

Table 7. Benchmarking findings of the A/P process between all units.

	The case company	Unit D	Unit M
E-invoice %	70 %	100 %	98 %
Places of Business	17	35	8
Purchase Invoices per Year '000	32-40	80	18-20
avg. PI/PB '000?	2,12	2,29	2,35
Supplier register	Outsourced	In-house	Outsourced
A/P team members	2 and more	1	1
References	No specific rules	Internal reference number (WQ)	No specific rules
Accounding coding	Automatic / A/P-done by person / reviewer	Reviewer	A/P – done by person
Core Business invoices	Coding & reviewing manually, approving automatic	PO automatic	Coding & reviewing & approving manually
Payment reminders	Outsourced	Inhouse Manually	Inhouse Manually
ESR to ERP transfer	Manually	Automatic	Automatic

Table 7 summarizes all the findings that the benchmarking brought. Between all units, the e-invoice percentage varies. The size of the units and therefore understandably the amount of purchase invoices differ. There are similarities and detected exceptions in reference policies, the process of coding and the process of the core business purchase invoices.

As this section focused on comparing the outsourced A/P core processes of the case company to identify best practices from the other units and reviewed the opportunities by collecting improvement ideas, all the findings support the building of the proposal. The next section documents the building of a proposal for how to backsource A/P as an in-house process in the case company and what things need to be taken into consideration.

5 Building the Proposal Backsource A/P Plan for the Case Company

This section is about building the initial proposal of how A/P can be re-established as an in-house process at the case company and what needs to be taken into consideration in the planning phases of the backsourcing process. The proposal is informed by the findings from the current state analysis and by the existing knowledge.

5.1 Overview of the Proposal Building Stage

This section describes the steps in the proposal building. The aim of the proposal is to evaluate the potential backsourcing of the A/P services and to identify the key elements that should be taken into account to ensure the success of the possible backsourcing action. The best practices identified in the key focus areas of the conceptual framework are transformed into practical suggestions that will serve the case company in the planning process of backsourcing A/P. The three elements, as previously introduced in section 3, are *Accounts Payable*, *Business Process Development,* and *Backsourcing*. The selected tools, concepts, and other sub-elements are relevant for building the proposal.

The A/P process, including processing of the purchase invoices, responsibilities & roles, and benefits & risks of in-housing helped to understand the current status. The current status of outsourced A/P was investigated at each step of the process. At the same time, the business process of the A/P at the case company was seen through a process development perspective using the most suitable process development method, benchmarking. The proposal building was implemented by investigating the backsourcing process and focusing on backsourcing A/P services.

Building the proposal started with a workshop meeting where the results of the current state analysis were introduced to the local finance team of the case company. After the workshop, results were introduced, and all the findings from benchmarking the other units were introduced separately. The workshop was recorded, and all the comments, recommendations, and development ideas were considered later. After the local finance team meeting, the researcher had a group discussion meeting with the local finance team and higher stakeholders, the CFO, and the HA and the HF that are managing unit D, unit M, and the case company finance departments. The purpose of the meeting was to discuss backsourcing in general and go through the results of the current state analysis.

After a general meeting with the higher stakeholders, the researcher had two one-to-one individual discussion sessions with two of the local finance team members. These individual conversations highlighted all the recommendations that need to be taken under consideration. After this meeting, the CFO and HA had two online meetings with the researcher. In these online meetings, there was a deeper discussion of building the proposal.

The outcome of the proposal building was divided into two elements. The first element is a plan of improvements that need to be taken into consideration to ensure the second element; the planning phase of backsourcing A/P in the case company. The initial proposal was built in many steps, first in several small workshops with the local finance team and later with the stakeholders higher in the organization.

5.2 Findings from the Current state analysis & Building the proposal

Considering the previously mentioned literature on backsourcing processes and backsourcing A/P presented in section 3.3, the backsourcing processes can be combined into one process shown in Figure 21 below.

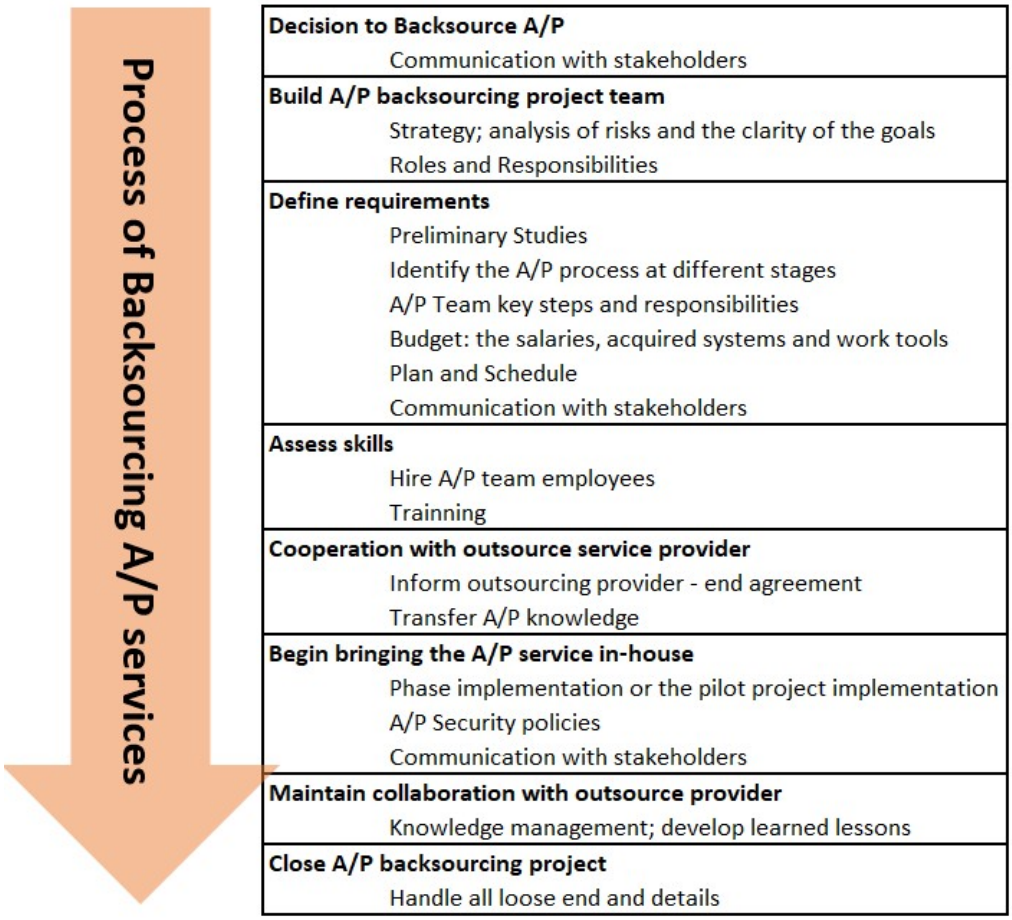

Figure 21. Combined Process of Backsourcing A/P services.

Figure 21 contains eight phases. The first three phases are part of planning the backsourcing process. Other phases are related to actions and are left out of this thesis, as the thesis aims to create a plan for backsourcing A/P for the case company. However, these phases are briefly introduced here.

As Figure 21 shows, the process starts with the decision to bring outsourced A/P services back in-house. It includes communication with all internal stakeholders that are involved in the A/P services. When the decision of backsourcing is done, the A/P backsourcing project team needs to be built. The A/P backsourcing project team follows the backsourcing strategy. The project team needs to prepare an analysis of risks and clarify the goals. All the team members have roles and responsibilities related to the backsourcing A/P process. The A/P backsourcing team studies the current practices of A/P and identifies all the steps including different stages. At this point, the budget for salaries, acquired systems and work tools becomes clearer. The A/P backsourcing team

produce a plan and a schedule for upcoming backsourcing while informing and communicating with internal stakeholders.

When requirements are defined, the company needs to assess skills. The company needs to hire people to do A/P in-house. Recruiting new employees and training them to understand the company's practices are time consuming and complex tasks. The cooperation with the outsource service provider starts when the case company informs them about the backsourcing decision. The outsourced A/P service team's key steps and responsibilities needs to be shared while transferring knowledge of the provided A/P service. When the knowledge, including key elements and responsibilities are transferred, the case company can begin bringing the A/P service in-house. This can be done by phase implementation or piloting. Collaboration with the outsource service provider needs to be maintained all the way until the end, when it is the time to close the A/P backsourcing project.

As mentioned before, the current state analysis pointed out that the outsourced A/P process is laborious and there are many things or process parts to improve regardless of whether the A/P is outsourced or backsourced. These next described findings are related to the backsourcing process step *Define Requirements.* The current state analysis already discovered the A/P processes at different stages, and it helped the case company identify parts that need to be taken under consideration. As the following quote from one of the local finance team members illustrates:

> Before we even start to go with the plan of backsourcing, we need to solve these identified process parts that cause a lot a work. After that we can really know how much work A/P is in-house and how much resources we need. *(Interviewee 6)*

As before shown in Table 7, the case company has the lowest percentage of receiving e-invoices. The case company should focus more to getting their purchase invoices in an electrical way and demand e-invoices from all the suppliers. As the following quote from one of the local finance team members illustrates:

> Purchase invoice amounts are quite same (avg. PI/PB), and we know that the suppliers are the same. We should also get their invoices as e-invoices. *(Interviewee 5)*

The case company should manage their accounts payable in-house if the process were more automated. Automatic accounting coding could be a more efficient process if all

purchase invoices were received electronically. It seems that the case company has not studied or taken into use all the features from the current ERS. There are automatic accounting code-related settings and purchase invoice circulation rules that the case company has not taken into use for all suppliers. Understandably, the outsourced A/P team has no interest in diving into all the hidden features that the ERS is holding, and because of this, it is recommended that the case company plan some time to investigate and develop the current process. In the local finance team, there is no desire to take the laborious process in-house, as the following quote illustrates:

> We should improve the current process to be easy and nimble, to be one person job, and then take it in-house. *(Interviewee 6)*

As the current state analyses showed, in the case company the core business-related purchase invoices are the most laborious to handle in A/P. Some core business related purchase invoices consist of several pages and their advance accounting coding is covered by additional billing. Additional billing is based on used extra hours. This means that the case company receives additional costs anytime when outsourced A/P is adding accounting codes row by row. This work of manual accounting of many pages or PDF purchase invoices requires accuracy. If all these PDF purchase invoices could be turned into e-invoices, then the accounting coding would be easier, and the case company could save money and time. The ERS is offering an extra feature called SmartPDF. With SmartPDF the case company could convert emailed PDF invoices from suppliers into real e-invoices (Basware, 2024). As mentioned before, unit D has a PO number process where there is no manual accounting coding with core business purchase invoices. This is a valuable finding, and the case company should investigate how they could implement the same process, as the following quote illustrates:

> The biggest thing that we have to solve before backsourcing A/P is the processing of core business purchase invoices. Core business purchase invoices employ the A/P team and other internal teams. The matter needs to be clarified and it will then determine how much resources we would need to take in if we in-house A/P. *(Interviewee 6)*

This topic raised questions at the workshop with the local finance; *What are the real opportunities for development, and will they succeed in reducing the workload?* Similar to the PO number process, using an internal WQ-number could be a way to reduce workload. The internal WQ-number process would streamline the review and approval workflow in the ERS.

One identified issue regarding training and growing knowledge is with the outsourced A/P team. The outsourced A/P team often contacts the local finance team's A/P contact person in the case company by asking for help. The A/P contact person's role is only to control the outsourced A/P process. For example, an outsourced A/P team may turn into an A/P contact person with a foreign purchase invoice asking is the VAT relevant. This gives the impression that either knowledge or experience is lacking, the following quote from the local finance team member of the case company illustrates:

> This indicates the weakness of the outsourced service. We have purchase invoice experts in A/P, who should know what the VAT is and also all the requirements that the invoice must have. This tells about the level of service, the uncertainty that they have to ask for help from the A/P contact person. *(Interviewee 6)*

Another local finance team member of the case company pointed out that previously, people who worked in outsourced A/P team were more courageous in contacting suppliers themselves when they noticed an incomplete purchase invoice. This issue is precisely related to the change of people and the interruption of the transfer of knowledge and skills. However, knowledge cannot depend solely on transfer, as the following quote demonstrates:

> I think that our outsourced A/P team currently does not have the skills or know-how to deal with VAT. *(Interviewee 6)*

Another internal issue regarding training and growing knowledge is related to the case company's ERS users. Neither the ERS users, the reviewers nor approvers know which dates are the purchase invoice payment days. If the ERS users would know the payment days, users would review and approve their purchase invoices using the given day and time schedule. This could improve the purchase invoice circle and prevent the case company from receiving payment reminders.

However, when considering the backsourcing, it is important to analyze different scenarios, as the following quote illustrates:

> The cost-effectiveness comparison should made and compare different solutions and their benefits before making a decision. *(Interviewee 6)*

It would be good to compare the costs of different options and try to calculate the most profitable way to proceed. There are undoubtedly many options. The SR can be left outsourced, as other units have it outsourced, or it can be backsourced it in-house.

SmartPDF costs money to implement and the transaction price of the purchase invoices would change, but would the savings be compared to the cost of additional billing? Since this thesis focuses on creating a plan for how to backsource outsourced A/P services and what the in-house A/P function requires from the case company, it does not provide any calculations to support decision-making. In addition to the backsourcing plan, cost-benefit calculations should be conducted to ensure the decision is worthwhile. The next chapter is about the initial proposal which collects the refined plan of backsourcing A/P as a process.

5.3 Initial Proposal for the Case Company

The current outsourced A/P process of the case company follows the pattern based on the literature. The case company has a vision and a strategy to develop core processes. The A/P can be seen as a business process as the conceptual framework element *Business process* described. Through the element of *Process Development Benchmarking* as a development method, the case company has now collected valuable information in the current state analysis by comparison A/P process with other units. The best practices have been pointed out. The case company has noticed that there is a need to improve the process first before the case company can start planning the backsourcing. The case company sees that the improved A/P process is easier to backsource in the future. After the improvements, the case company can understand better what the A/P process in-house requires from them.

The results of the current state analysis have shown that the case company should improve the current A/P process, regardless of the decision to actually backsource or leave it outsourced. The case company has recognized strengths and weaknesses in the current setup. Strengths lay in the ERS, but it seems that the case company has not fully taken use of all the features. Weaknesses are pointed out in laborious and manual work patterns. Automation of manual processes would enable costs savings, as the time-consuming manual work steps are largely eliminated. These work steps need to be improved before any actual action of planning can start with backsourcing. The next chapter describes shortly the improvement parts and plans for how to solve them.

5.3.1 Improvement Areas for the Case Company

As the outcome of the current state analysis shows, the case company has recognized that the current A/P process is time-consuming, and improvements are needed. The following improvement ideas are the main actions that the case company has chosen to consider. These improvement ideas are understood in the case company and therefore recommended to implement regardless of the decision to backsource A/P or leave it outsourced. These improvements are part of standardizing operating methods across units. The conceptual framework element *Development Methods – Benchmarking* reveled these improvement ideas during the current state analysis. The improvements are shown by areas in Table 8 below.

Table 8. Initial Proposal Element 1 - Improvement areas in order of priority.

Priority	Improvement Areas	Actions
1.	E-invoice share up to 100%	Refuse to receive paper invoices 1.) Collect data of suppliers who send invoices by a) paper b) PDF 2. Contact suppliers and demand an e-invoicing method = EDI 3. Complete a contract for scanning paper invoices
2.	ERS features	Automatic coding 1.) Add automatic coding by a) supplier b) line-specific 2.) Ask help from the outsourced A/P team Improve the Admin Users skills 1.) Plan and schedule orientation period 2.) Find the program's advanced use training possibilities a) from outsourcing service provide b) from the ERS provider SmartPDF 1. Transfer all PDF invoices to e-invoice 2. Add automatic coding by a) supplier b) row specific
3.	Core Business invoices	Build PO system 1.) Investigate the current data flows a) prepare project team with tools b) schedule and plan, define the scope c) contact to suppliers d) ensure the process from both ends e) define PO process from the ERS side
4.	Internal References	Implement an internal reference 1. Agree on practices within the company. 2. Inform suppliers a) an addendum to the supplier letter b) return invoices that are not marked according to requirements

The initial proposal begins from the first element; Improvement areas, as Table 8 shows. The first improvement area is getting the e-invoice share up to 100%. This means that the case company should refuse to receive purchase invoices on paper and eventually terminate the contract for scanning services. The goal is to receive all the purchase invoices to come as EDI-invoices. This is an important improvement idea because only for EDI-invoices, an automatic line-specific accounting rule can be made. This

improvement idea is related to the first main element of the Conceptual Framework; *Accounts Payable Process Introduction.*

The second improvement area also relates to the same conceptual framework *Accounts Payable Process Introduction*. The improvement area is to utilize all available features in the current ERS. The case company should add more automatic coding and improve admin users' skills. The case company should familiarize themselves with the program's instructions on their initiative or request additional training from the ERS provider. The provider of the outsourced service may have in-house personnel who could guide and help with the more advanced use of the program. To optimize the processing of PDF purchase invoices and to eliminate the laborious and error-prone manual work steps involved, the case company needs the additional feature to their ERS to convert paper purchase invoices to electronic form.

The third improvement area is about to optimizing the processing of purchases, but from the perspective of the core business purchase invoices. The case company should build a PO system. This means, that the incoming core business purchase invoices would automatically circulate through the PO, and no one would have to manually check them one by one. This development idea is the most laborious of all, but the advantage is unquestionable.

The last improvement area is also about to optimizing the processing of purchases by demanding that suppliers add internal references. The practice needs to be agreed upon by the case company and the case company needs to inform the supplier. Besides the agreement between the case company and the supplier, the case company needs to ensure that the supplier is following the agreed practice. The case company could return purchase invoices that are not marked according to requirements if the case company has informed the supplier of internal reference requirements when they have made the order. After finishing these improvement ideas as shown in Table 8, the actual action of planning Backsourcing can start. The next section describes the second element of the initial proposal, the process parts of planning backsourcing A/P services.

5.3.2 Planning parts of the Backsourcing A/P Process

After the first element of the initial proposal, the improvement actions, the case company can follow the backsourcing A/P Plan which is the second element, and the other half of

the initial proposal. The backsourcing A/P Plan starts from the process of backsourcing, focusing on the first three phases as shown previously in Figure 21. These phases of planning the backsourcing process are described in more detail as Table 9 shows below. Table 9 is based on the last main element of the Conceptual Framework, *Project Planning Backsourcing* Figure 21.

Table 9. Initial Proposal Element 2 - Planning parts of the Backsourcing A/P Process.

Phase	Planning parts of the Backsourcing A/P Process	Tasks
1.	**Decision to Backsource A/P**	
		Communication with stakeholders
2.	**Build A/P backsourcing planning project team**	
		Strategy; analysis of risks and the clarity of the goals Roles and Responsibilities
3.	**Define requirements**	
		Preliminary Studies Identify the A/P process at different stages Plan and Schedule Communication with stakeholders

As Table 9 shows, the planning part of the Backsourcing A/P services process contains three phases. All phases contain different tasks. The first is the decision to investigate backsource as an action. The second is building a backsourcing team that deliver strategy-based analysis and clarify what are the goals for the backsourcing A/P. The third phase contains requirement definitions. However, this phase does not involve the tasks of *Budget: the salaries, acquired systems and work tools* task, as this thesis does not deliver calculations. These three phases are described in more detail in the following section.

5.3.2.1 Decision to Backsource A/P

As the main element of the Conceptual Framework, *Project Planning Backsourcing; the Defining Backsourcing process* showed that the decision to backsource A/P requires a defined strategy with discussions and communication with all the stakeholders. The discussion situation should be open, and all stakeholders' ideas and thoughts should be taken under consideration. Open discussion moments should be organized often and with a sufficient schedule. Time must be given for discussion and decision-making. All stakeholders should consider what benefits and risks backsourcing the A/P would bring

and perhaps what benefits and risks keeping the outsourced A/P brings. As the first main element of the conceptual framework *Accounts Payable Process Introduction; Benefits and Risks of In-housing A/P* indicated there are more benefits than risks having the A/P in-house. And as mentioned before, processes can be improved, and the case company can influence better their processes when they have their employees in control.

All different perspectives must be considered during the decision to backsource the A/P, and the case company should not get stuck on one or two initial thoughts. Decision-making authority should be delegated to as many individuals as possible. Decisions should be made by the people who have the best and the most up-to-date information. The supervisors, managers, or higher stakeholders should not give ready-made answers. These people should act as a sparring partner and ask good questions. Additionally, these people should encourage other stakeholders to make decisions between keeping the A/P outsourced or starting to investigate the other option, backsourcing A/P. In order to make a decision, background information on backsourcing is needed and several alternative solutions must be created. To collect the background information as a pre-study, there should be a project team. The next chapter discusses more about the building A/P backsourcing project team and their purpose in the backsourcing A/P plan.

5.3.2.2 Build A/P Backsourcing Project Planning Team

When the decision to take a deeper look at the backsourcing A/P is done, it is time to set up a project team. The backsourcing A/P project planning team should contain local finance team members who work closely with the current outsourced A/P team or who have existing knowledge of the current setup or A/P services in general. Supervisors should make sure that people who are involved in the backsourcing A/P planning project team have the required time to take part. The backsourcing A/P planning project team should have a clear schedule or a timeframe and a strategy how to identify the outsourced A/P process at different stages, as the main element of the conceptual framework *Defining process of Backsourcing A/P services* described. The proposal for the backsourcing schedule is shown in Table 10 below.

Table 10. Proposal for backsourcing schedule for Planning parts of the Backsourcing A/P Process.

Planning parts of the Backsourcing A/P Process schedule	**Month**	**Month**	**Month**	**Month**
Decision to Backsource A/P				
Build backsourcing A/P project team				
Define requirements				

As the proposed backsourcing schedule shows in Table 10, the second and third process phases of the Planning Backsourcing A/P services start down the line. These phases start and run side by side. The proposed schedule is indicative, and its purpose is merely to provide a high-level idea of how these phases are aligned.

The project planning team's purpose is to pre-study the current A/P process. Their purpose is to make an analysis of risks in the current process and clarify the goals of the backsourcing. The project planning team should collect as much information as possible because it should eventually make the knowledge transfer easier. The analysis helps the case company figure out exact actions, activities, and workforce requirements in the different process stages. For example, it is important to consider how to establish the SR in-house with the limits to access to it. The project planning team should list all the assignments and tasks of the outsourced A/P team. The outsourced A/P process with all different roles and responsibilities should be identified at every stage. When the current process of outsourced A/P is clear, the project planning team should present their findings to other stakeholders. The information gathered on the outsourced A/P process, presented in the current state analysis, along with all the findings in this thesis, helps define the requirements for backsourcing actions. The next chapter discusses more about defining identified requirements.

5.3.2.3 Define Requirements

The current state analysis identified the outsourced A/P process at different stages, and it followed the first main element of the conceptual framework *Accounts Payable Process Introduction; A/P services - Processing of the purchase invoice element*. The case company has the privilege of using the information already produced by this thesis to

fulfill the requirements, as the preliminary studies are produced. The current state analysis also has produced valuable information about what the process is like. The identified A/P process is shown in Figure 22 below.

A/P process

System	ERP	ERS
Process		
	1. Supplier register	
	Secured limit the access	
		2. Purchase ledger management
		Receipt, processing and recycling of purchase invoices
		Recycling of the purchase invoice Perform the account coding Checking the invoices returned from the round
		Payment reminders & Late payment interest
	3. Transfer to ledger	
	Reconciliation	

Figure 22. Identified A/P process parts.

As Figure 22 presents, the A/P process contains three main areas and two systems: the ERP and the ERS. The A/P process begins from the SP at the ERP, and the second process element is PL management in the ERS. The last process element is data transfer and reconciliation between the ERS and the ERP.

The conceptual framework element *Accounts Payable Process Introduction; Responsibilities & Roles* emphasized that the SR should be secured and with limited access. The current state analysis with the conceptual framework element *Development Methods - Benchmarking* revealed that the SR management person should be either a separate person from the A/P team or there should always be two people processing the suppliers' data. There is also the possibility to leave the SR outsourced, as it currently is. These ideas are presented below in Figure 23.

ERP	Secured limited access	
1. Supplier register	a) Backsource	By separate person/persons outside the A/P team - ERP user specific rights to modify suppliers' information at the SR
	b) Keep the current set up	Keep this part of the process outsourced, as it is - the right to modify suppliers' information from the SR is secured

Figure 23. Requirement Plan for Supplier register process element.

As Figure 23 presents, the initial proposal for the requirement plan for the SR process part contains two possible ways to proceed. The first way is to backsource the SR process part. As pointed out during benchmarking other units, one way to handle the SR management is to give the responsibility to person has no role with payments or A/P admin in the ERS. The best way to secure the SR management is to give this right to two people because these persons can substitute each other when needed, for example during the holidays. One person should be the main SR manager and the rights could be added to the second person when needed.

The second way to proceed is to keep the SR management outsourced. The case company has several ERP services outsourced to service providers and keeping this part of the process as it is, is one way to secure the SR management. The decision of choosing which way to proceed with the SR management is essential for defining requirements for backsourcing. This option is one way to impose lower requirements for the case company, as opposed to what the following described parts of the PL management process require. Identified PL management process part with its defined requirements is shown in Figure 24 below.

ERS	Receipt, processing and recycling of purchase invoices	
2. Purchase ledger management	Recycling of the purchase invoice	Recycling rules
	Perform the account coding	Normal purchase invoices Core business related purchase invoices
	Checking purchase invoices returned from the round	Control of recycle
	Payment reminders & Late payment interest	

Figure 24. Requirement Plan for PL management process part.

As Figure 24 presents, the initial proposal for the requirement plan for the Purchase ledger management process part in the ERS contains two main parts: *Receiving, processing & recycling of purchase invoices* and *Payment reminders & Late payment interest.*

The first part *Receiving, processing & recycling of purchase invoices* contains recycling the purchase invoices, performing the accounting codes, and checking the purchase invoices. The second part contains *Payment reminders & Late payment interest.* The initial proposal of the requirement plan for PL management helps the case company narrow workforce requirements. The case company needs to hire one or two new resources with the expertise of A/P. The A/P manager should have financial management skills and numerical accuracy. Carefulness and punctuality are also important. The A/P profession requires customer service and cooperation skills, as well as confidentiality. The job requires the ability to work quickly and flexibly, even under the pressure of being busy during month-end tasks. But the most important requirement is to have some A/P-related legislation management or an interest in continuously following the development of the A/P field, as the conceptual framework element of *Accounts Payable Process Introduction; A/P services - Processing of the purchase invoice* emphasized requirements of a good A/P manager. The experience of the new employee or employees with the same ERS used by the case company is considered an advantage. Any A/P team member should have the skills to create accounting code automation and find the best ways to use the current ERS.

The last part of the *Define requirements* phase in the planning parts of the backsourcing A/P services process contains communication with stakeholders. At this stage, all the collected information is put together. The results should be reviewed together with the backsourcing project planning team, the local finance, and the case company’s management. All the necessary information about the situation should be given to the case company. At this point, backsourcing A/P goals should be clear and the backsourcing as a project should be realistic about planned resources. However, most important is that the backsourcing project plan should have the unreserved support of senior management before taking any further steps with actions. Cooperation with the outsourcing service provider should also begin at this point if the case company decides to backsource A/P. By following the proposed planning stages of the backsourcing process and ensuring proper preparation, the case company's A/P can be brought in-house quickly and without major issues.

All these defining requirement parts help the case company to create a budget for salaries and list with acquired systems. With this knowledge, the A/P backsourcing project planning team should be capable of providing a more detailed plan and schedule for the rest of the process parts of backsourcing. The initial proposal does not contain a more precise schedule for the planning process or the duration of the active project phases, because the Improvement Areas and the decisions of the case company affect many things. Based on several different options and the assumptions of what these scenarios create, it is not possible to form a more precise schedule. Different options make it difficult to create an unambiguous plan for backsourcing, but the next section summarizes all together to support the decision.

5.4 Summary of the Initial Proposal

This summary includes all the aspects presented earlier. Summary of the Initial Proposal is represented in Figure 25 below.

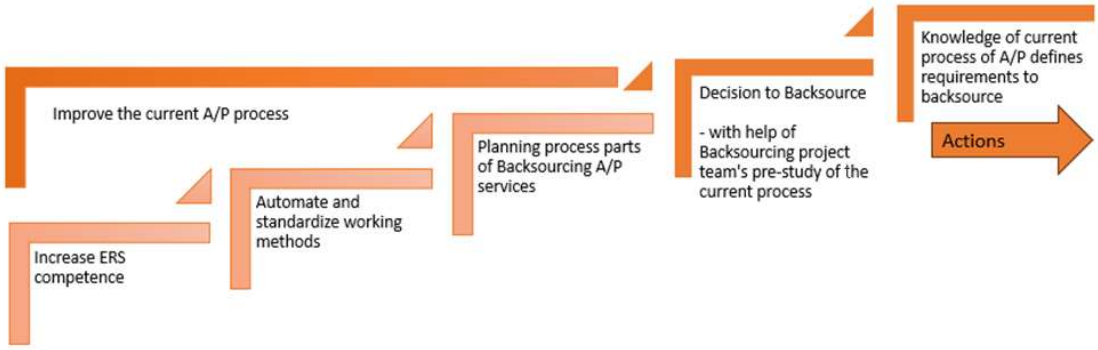

Figure 25. Summary of the Initial Proposal of Backsource A/P Plan.

As shown in Figure 25, the case company should improve the current A/P process regardless of the decision or actual actions to backsource A/P from the service provider. The case company should start to increase the knowledge of the ERS as automating and standardizing the current A/P processes and working methods are part of the case company's mission to standardize operating methods across all units. When the operating methods are carried out in the same way between all units, it is easier to understand and control them in aggregate.

The Backsource A/P Plan starts from building the backsourcing team. The backsourcing planning team delivers strategy-based analysis and clarity what are the backsourcing A/P goals. All collected information eventually makes the knowledge transfer easier. With the help of the Backsourcing project planning team, the case company can make the decision. The decision could be to leave the A/P outsourced, bring some of the A/P processes in-house, or backsource it fully. Depending on the decision of what the case company stakeholders choose, the last phase contains requirement definitions. Requirement definitions qualify the next steps in action. The Backsource A/P Plan process is about planning and after a well-made plan, concrete actions can begin.

Summing up, the initial proposal does not provide answers to all the questions and leaves room for deeper planning, such as salary budgeting, as the purpose of this thesis was not to determine whether the backsourcing of A/P is financially viable. Next, Section 6 focuses on the validation of the initial proposal and then presents the final version of the proposal.

6 Validation of the Proposal

This section reports on the results of the validation stage and the third data collection round gathered from the validation comments and overall feedback from the stakeholders of the case company. At the end of this section, the final proposal and recommendations for the future are presented.

6.1 Overview of the Validation Stage

The initial proposal included two elements: Improvement Areas and Planning parts of the Backsourcing A/P Process. The aim of the validation was to gather feedback on the initial proposal from the case company to develop the final proposal. The validation had to take place in two sessions, but due to scheduling problems, the validation session with the higher managers was divided into two different meetings. In total, the validation was performed in three sessions.

The first validation session was in an internal meeting with the local finance team of the case company. The second and third validation sessions were with the higher managers. The reason why the validation sessions between the local finance team and higher managers were done separately, was that the local finance team of the case company is closer to the subject. This feedback is more critical than others. The initial proposal influences more to the local finance team of the case company than to the higher managers. The higher managers do not have necessarily the same detailed world of thought around the subject. Due to this, the feedback had to be brought from the place where the proposal affects the most.

The validation process in all sessions contained three main steps. In the first step of the validation process, the online presentation of the initial proposal was given. The online presentation meeting was organized through a Microsoft Teams meeting. During the presentation additional information was also shared. The second step of the validation process contained feedback collection. To collect notes on the feedback, the online presentation meeting was recorded. With the help of the recording, the comments and feedback brought by the free conversation were captured. This helped to gather all the questions, comments, and other topics. The free discussion in the online meeting provided good ideas after and during the online presentations. The third stage of the

validation process was based on the collected feedback. Based on the feedback there were developments to the initial proposal. After these developments the final proposal was built.

The next section discusses the comments and feedback gathered during the validation sessions and presents the developments that followed from it.

6.2 Developments to the Proposal

As the initial proposal contains two main elements, the suggestion for the proposal is also divided into two sections. The first section contains development to the *Improvement Areas* and the second section contains development to the *Planning parts of the Backsourcing A/P Process*. Table 11 shows expert suggestions divided by Elements 1 & 2.

Table 11. Expert suggestions for the Initial proposal.

	Elements of the Initial proposal	*Parts commented in Validation*	*Description of the comment/ feedback*	*Development to the Initial proposal*
1	Improvement Areas	a) List of improvement areas	Important. Proposed actions - would reduce A/P team working hours. Logical. (First Validation) All are reasonable ones. To get higher e-invoice% faster, change the priority order, or add SmartPDF to the first priority (Second Validation) Regardless of the backsourcing decision, these can be implemented. (Third Validation)	Changed the priority order with the first and the second. = SmartPDF raised to priority one.
		b) Priority order	Confirmed, considerations to change order of the first and seconds. (First Validation) Priority number 2 could solve priority number 1. Turn on SmartPDF and then contact to the suppliers. (Second & Third Validation)	The initial proposal improvement area -> key focus on priority number 2: SmartPDF

		c) Core Business invoices – PO system	Upcoming new sales system would perhaps help to build this solution. (First Validation) SmartPDF could speed up the processing of these big volume invoices. (Second Validation) Compare prices with the different ERS provider. (Third Validation)	SmartPDF feature highlighted. Recommendations for future; make calculations, compare different providers.
		d) Internal References	Minor improvement idea. (First Validation). Internal reference number do not need to be tied to person; it could be tied to role. (Third Validation)	Left out from the Final Proposal, as all improvement areas were just to "good to know" for the case company.
2	Planning parts of the Backsourcing A/P Process	a) Improve the current AP process	Use the help of outsourcing service provider to improve current process. (Third Validation)	Advise to use the service provider to reach the efficiency quickly.
		b) Define requirements	A/P Skill set – not perhaps something that are really needed permanently. (Second Validation) Improvement areas define what we need. (Third Validation)	Lowering the required experience level, the possibility to buy the skills from outside, including follow ups
		c) Overall process	A detailed, practical, and all-encompassing package. (First Validation) Good job – nothing to add. (Third Validation)	N/A
		d) Define requirements; Backsourcing as Business case	The only thing missing from this is calculations. (First Validation) Financial part is missing. There should be mentioned that part of the decision is based on; is this a good business case? It this financially smart thing to do. (Second Validation)	Added to recommendations; what point calculations should be executed.

As seen from Table 11, the first validation session with the local finance team of the case company did not bring any major development to the Initial Proposal, but the higher stakeholders' feedback brought. Table 11 summarizes the inputs from all stakeholders.

Detailed descriptions are presented in the next sections. First developments to the Improvement Areas and then to the Planning parts of the Backsourcing A/P Process.

6.2.1 Developments to Improvement Areas of the Initial Proposal

The local finance team of the case company agreed that these improvement areas are important. All findings were seen as valuable, even when the findings did not answer directly to the question: *How can A/P be re-established as an in-house process in the case company?* However, all participants in the first validation session understood how these findings help their company to improve the current process. Implementing the proposed actions to these improvement areas would reduce A/P team working hours. This would also help the case company understand, for example, how many hours the in-house A/P team would have. Understanding the needed A/P hours per day would help the case company to figure out how many persons' A/P activities in-house necessitate as the following quote illustrates:

> If we could develop these things, it would affect how many hours our internal person would use. *(Interviewee 6)*

The local finance team of the case company felt that some of the improvement areas should be left for less attention when moving to the final proposal. However, in the first validation session, the local finance team of the case company saw that the Internal Reference part was a minor improvement idea, and its identifiecation of being a low priority was correct as the following quote illustrates:

> The Internal Reference part is quite small improvement thing. *(Interviewee 8)*

One member of the local finance team is going to rase this topic with the outsourced A/P service provider immediately to find out if the current service contract includes control of any references or if it is in the scope of additional invoicing. This request was pointed out as the following quote illustrates:

> This is something to be developed and ... (the service provider) should do it more actively by themselves. *(Interviewee 5)*

The second validation session with the CFO brought a good topic to further discover and discuss in the case company. The case company should use the knowledge of the outsource provider and get help on how to communicate to the suppliers and prefer only

e-invoices. The CFO pointed out that receiving PDF invoices is not a stumbling block, but agreed that it would help the A/P process of the case company as the following quote illustrates:

> This is not a deal-breaker, but it would be beneficial to get most of them as EDI-invoice and this is important for resource management. *(Interviewee 10)*

The CFO also mentioned in the second validation that the case company would benefit from implementing the SmartPDF feature as a priority one. The next quote illustrates this point of view:

> The best is to get the supplier actually to send e-invoices, but instead of waiting for them to implement, … (the case company) do it for them (by SmartPDF) and then … (the case company) start asking them to do it (EDI-invoice).
> *(Interviewee 10)*

This way the case company could increase the e-invoice amount and speed up the purchase invoice process. Turning all paper or PDF invoices to e-invoices and adding automatic coding and handling to them could benefit the case company faster. In this way the results would be revealed earlier than just waiting for the suppliers to act.

In the third validation session, the HA pointed out that the case company should perform well known project calculations. Even if the case company does not decide to backsource, pending the results, it could be good idea to improve processes before backsourcing. HA was also wondered whether outsourcing service provider could help the case company with the improvement areas. However, the improvement areas there good, as the following quote illustrates:

> We can do lot with this, even when or not the decision to backsource is done.
> *(Interviewee 11)*

During the third validation, both higher stakeholders HA and HF agreed that the case company can do a lot to improve the efficiency of the current A/P process regardless of the actual decision to backsource A/P or not.

6.2.2 Developments to Planning parts of the Backsourcing A/P Process the Initial Proposal

In the first validation session, one member of the local finance team of the case company was positively surprised that the initial proposal was done in such a detailed way. This person was impressed by how the initial proposal was defined down to the practical details. All members of the local finance team of the case company were satisfied with the initial proposal. The summary of the Initial Proposal, (Figure 25) was clear as the following quote illustrates:

> Figure 25 shows how the initial proposal process is built, piece by piece and it grows up. *(Interviewee 6)*

However, as mentioned before, *Improve the current A/P process* is the first phase where the case company begins with planning to backsource the A/P. After this phase of actual deeper investigations and decisions of planning backsourcing process can start. The second validation session with the higher manager CFO pointed out that the financial part is missing. The feedback was that there should be mentioned that the decision should be based on whether the backsourcing or any step including the process is a good business case. During the decision-making phase, the case company should have the capacity to have answers if the chosen activity is or are a financially smart thing to implement. This is illustrated by the following quote:

> What does it cost us to do today with an outsourced partner, what do we think it will cost us if we do it internally? … If they are like the same, is there any other, not a hardcore financial benefit by having it in-house, then that might make the decision even more costly. The financial part is important for making the decision. *(Interviewee 10)*

Despite this, the local finance team of the case company did not have anything to add to the initial proposal. All members of the local finance team said that the proposal was done thoroughly and shows practical experience. All members of the local finance team were happy to see that the wishes of the company have been brought out well. However, the second validation session with the higher manager CFO brought some ideas related to motivating the backsourcing project planning team as the following quote illustrates:

> It is quite difficult to backsource if the team is not kind of motivated to do that, so or at least then you have to bring on someone who is. *(Interviewee 10)*

After discussing the developments to the Initial proposal, this section ends with the Final proposal presented in one overview.

6.3 Final Proposal

Based on the feedback gathered during the validation, the proposal was updated to accommodate the changes required.

The case company should improve the current A/P process with the help of the outsourcing service provider and the service provider should help increase the ERS competence. If the outsourcing service provider cannot assist the case company with the missing ERS features, the case company should turn to the ERS service provider side.

As mentioned before, regardless of the backsourcing decision, all improvement area actions can be implemented. However, the key focus action narrowed to transfer all PDF invoices to EDI-invoice by implementing mentioned SmartPDF from Basware, as Table 12 presents.

Table 12. Improvement area - Key focus.

Priority	Improvement Areas	Actions
1.	E-invoice share up to 100%	SmartPDF Basware 1. Transfer all paper / PDF invoices to EDI-invoice 2. Add automatic coding by a) supplier b) row specific

As Table 12 shows, the first element of the Final Proposal contains the key improvement area *E-invoice share up to 100%*. And in the action side, the Final Proposal contains actions to implement SmartPDF's additional feature. In this way, the case company can raise their e-invoice up to 100% without waiting for the suppliers.

However, the case company should still investigate and find an alternative service provider and calculate whether it could be a cheaper solution to implement. There are

different services available with a PDF converter feature. It is highly recommended for the case company to find out alternative service provider systems and compare costs and features. The currently used ERS does not exclude the possibility of using other additional programs from different producers.

Based on the feedback, the second element of the initial proposal, *Planning parts of the Backsourcing A/P Process* did not require major development according to the validation sessions. The case company was pleased with the proposal, even though it did not include any calculations for supporting or understanding financial benefit at the decision-making stage. It would be good for the case company to prepare the internal calculations to support the decision to backsource. These internal calculations are the only thing that the proposal is missing. The calculations should include the budget, calculations of recruitment costs, system costs, etc. To steer in the right direction and support the decision, these example calculations mentioned above would show about profitability of the backsourcing A/P. Additionally, the case company should make an orientation plan and distribute work tasks with roles and responsibilities among the local finance team.

One minor development request was regarding the required experience level for an A/P person. According to the feedback, the experience lever should be lower, and the case company therefore should consider the alternative solution to implementing A/P skills from the outside of the company, for example using a consulting company that specializes in the subject.

Overall, the final proposal is shown in Figure 26 below.

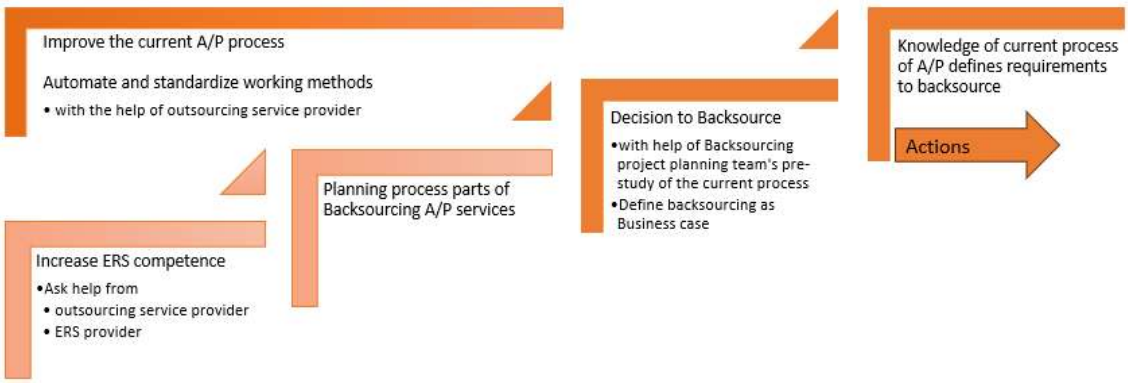

Figure 26. The Final Proposal of Backsource A/P Plan.

Figure 26 shows the Final Proposal of Backsource A/P Plan starting from the upper lever phase to Improve the current A/P process. During this phase, the ERS competence increases with the help of the outsourced A/P service provider or the ERS provider. During the improvement phase, the planning process begins. After reaching the defined and satisfactory stages of development, it is time to make the decision. In this phase, the backsourcing should be defined as a business case. The last phase, including the decisions, ideally, an approved business case, and the gained knowledge helps to define needed requirements for backsourcing the outsourced A/P services. Further recommendations are discussed in the next subsection.

6.4 Recommendations

As mentioned before, the case company should more accurately evaluate the performance of different alternatives through detailed calculations and analyses. More detailed calculations allow them to make informed decisions that make financial sense and are strategically aligned. Participating in the evaluation not only clarifies which options are the most feasible, but also ensures that the case company's operations are led to better performance a line with NE units. The HA highlighted that the overall cooperation between units could benefit if all units used the same systems. This is illustrated in the following quote:

> Improvement could be, for example, if is it something we can share best practices or if we could have some same system so we could cooperate more. Is this something to investigate, I don't know. *(Interviewee 11)*

The HA was curious to find out what benefits NE units could have if all units were using the same systems. All units could benefit if they all were using the same ERS or the same ERP. This topic could be something to work with, when and if, the case company decides to backsource A/P services and succeeds with that. The next section will discuss the conclusion of this thesis.

7 Conclusion

This section contains the conclusion of this thesis, including the executive summary, managerial implications, and the evaluation of the thesis.

7.1 Executive Summary

The objective of this thesis was to create a plan for how the case company can backsource A/P services. The idea was to find out what in-house A/P processing requires. The case company, a medium sized service provide is a part of an international group aiming to standardize operations across all units. This aim drives the case company to explore the possibility of returning its outsourced A/P functions to in-house operations. The thesis explores how the case company could manage the A/P in-housing, using the knowledge from other units that have the A/P in-house. The goal was to identify the best practices and offer a plan for backsourcing A/P services.

The case company's current A/P process is outsourced, as are other financial functions, such as payroll, bookkeeping, and accounts receivable. Outsourcing was originally chosen to focus on core competencies. However, with the group-wide goal of operational standardization, the backsourcing A/P services has become a critical area of interest.

This thesis utilized qualitative research methods. Data collection relied on conducting interviews, with a focus on gathering insights from other units during the interviews. The research strategy applied in the thesis was applied action research, as the goal was to improve existing practices. This approach has seen a particularly suitable for practical development projects, where the aim is to create better solutions.

The research process of the thesis began with the existing knowledge, followed by current state analysis of the outsourced A/P process, by a benchmarking of A/P processes in two other units. The current state analysis identified both strengths and weaknesses in the outsourced model. For example, while the outsourced A/P team ensures consistency with backup personnel, it also lacks detailed familiarity with the case company's specific practices. The current state analysis highlighted key areas for improvement in the outsourced A/P process, such as the need for better knowledge of

the case company's ERS and the potential to increase the use of e-invoices to reduce manual processing.

The final proposal is designed to help the case company to start improving the A/P process and begin planning the backsourcing A/P process in-house. The backsourcing of A/P services offers the potential for added value once the supporting calculations are done. Additionally, backsourcing A/P can offer better control, and smoother processes, perhaps it will provide added value to the case company.

The outcome of this thesis is a plan for backsourcing A/P process for the case company, detailing the necessary planning steps and improvement considerations to implement the A/P services in-house action. The Planning parts of the Backsourcing A/P Process are based on insights from the current state analysis, benchmarking with other units, and best practices identified from the literature.

7.2 Thesis Evaluation

The busy schedules of both the case company and the thesis faced challenges to maintaining consistent progress throughout the process. Coordinating meetings and interviews across countries was not always easy. However, despite these challenges, the collaboration gained through meetings and semi-structured interviews with the participants proved to be invaluable. These meetings provided rich insights and enabled open discussions, allowing for a deeper understanding of the parts involved in the A/P services across the three NE units.

This thesis was specifically designed to support the local finance team of the case company by descripting several improvements to their existing A/P processes. The local finance team, of the case company was happy with the results, as the findings provided them with detailed information on how to start improving their A/P process and after that how to start planning for backsourcing A/P services. This guidance will be particularly beneficial if and when the case company decides to move forward with operational standardization and bringing once outsourced A/P services back in-house. This thesis will be help the case company and higher stakeholders to make decisions based on the recommendations outlined in the thesis.

Additionally, by benchmarking the A/P processes of other units, both the case company and the other units gained a more comprehensive understanding of the A/P process across the NE. This benchmarking exercise not only highlighted best practices but also revealed areas for improvement, that could be adopted to enhance overall performance. The exchange of knowledge and experiences between the units encouraged a collaborative atmosphere, ultimately improving the learning experience for all parties involved.

Overall, the thesis has effectively utilized both the selected knowledge, and the findings gathered from data collection concerning the planning part of the backsourcing of A/P services. It presented an analysis along with recommendations, supported by findings from relevant literature and insights from experts. The improvement areas and activities included to solving them creates several dimensions and ways to proceed. Looking ahead, it would be exciting to see how the case company proceeds with the improvement areas identified in the thesis. This could lead to significant progress into the case company's A/P processes, perhaps improving the efficiency and effectiveness of operations.

However, it is worth noting that a more extensive body of literature on backsourcing would have enriched this thesis. The lack of rich literature of backsourcing, especially targeting backsourcing A/P, can barrier a comprehensive understanding of distinction and practices. Additionally, it is important to note that the thesis had some limitations; it lacked a detailed financial analysis of the backsourcing of A/P services, and it did not provide an any answer regarding the business case aspect. This lack was disappointing, for the case company higher stakeholders, even though it was already defined to be excluded from the beginning. The financial analysis would have offered a clearer understanding of the financial implications of the proposed changes. While the thesis presents valuable insights, further exploration of the financial aspects of backsourcing A/P would provide better guidance for the case company in its decision-making process.

7.3 Closing Words

During the thesis, the topic of backsourcing A/P was as a central focus for the case company. This thesis has provided important insights and laid the base work for potential improvements in the case company's operations. However, it is important to recognize

that time and priorities can change. As the business landscape evolves, and other projects to standardize operation methods raise their voice, this can cause some topics being postponed. Nevertheless, the final proposal and the findings presented in this thesis are serving a valuable resource for future decision-making. By documenting the insights gained and the recommendations made, this thesis helps the case company with the necessary knowledge to act when the opportunity to pursue backsourcing A/P arises. The base work laid in this thesis ensures that the case company could be well-prepared to revisit the topic of backsourcing A/P services in the future. As the case company continues its journey toward, this thesis will stay as a reference point, guiding its strategies and actions when the time is right.

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Appendix 1. AI Written Statement

WRITTEN STATEMENT
on the use of AI-based tools in this thesis

by Hanna Rantanen the student of BI Master´s Degree Programme

Thesis title: Backsourcing Accounts Payable

According to the *"Guidance for addressing the use of AI-based tools in studies at Metropolia Business School (for written submissions)"* from August 2023, I make this statement on the use of AI-based tools in my submitted Master´s thesis.

1) Which AI-bases large language models or other AI-based tools I used
ChatGPT was used only for paraphrasing and fine-tuning texts to check grammars.

2) In which parts of the thesis which tools were used, and for which tasks *(please make a list)*
ChatGPT was only used to improve sentence formation and check typos.

3) What portion of the text was helped with these tools, for each use
For simplicity of the texts or improving the contexts of the sentences. It helped to have better structure of sentences

4) Which prompts were asked, exactly *(please indicate the page number in the text where used)*
No prompts appeared.

5) Here, I describe what continues an ethical and reliable use of AI-based tools that I used *(use, for example, the recommended documents from "MBS Guidance" referred to above)*
The AI-based tools that I used served only as a basic guide for improving my academic writing for this thesis.

6) Here, I describe how ethically and reliably I used the AI-based tools in my thesis submission
I understand the correct usage of AI-based tools for my thesis.

This written statement makes part of my thesis and is done to help in evaluation and assessment.

15.10.2024, Helsinki, Finland

(Signature)