

# **The budgeting and reporting process of a multinational organisation across regions and trade centres**

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<p>In the contemporary international business environment, a multinational organisation faces great challenges when it comes to budgeting and reporting. The complexity of budgeting and reporting is even greater when it implies the coordination of budgets and reports of trade centres located in other countries than the country of origin.</p> <p>A multinational organisation often adopts the participative budgeting method. The purpose of participative budgeting is to involve managers at lower managerial positions, to spur commitment and acquire deeper knowledge. Nevertheless, participative budgeting is complex, time consuming, and risky.</p> <p>In 2011 in Finpro a new budgeting approach was implemented alongside with new reporting guidelines. The new approach shifted the perspective from the finance department to the regional divisions. However, it appeared that no matter how the system is strengthened, barriers at country-level are likely to arise. Consequently, it is necessary to constantly analyse and enhance budgeting and reporting.</p> <p>The purpose of this work was to analyse the results and feedback of the newest budgeting process. The study, research-oriented, was performed between January and July 2012. The research was of a qualitative type; hence, the collection of primary data was engaged via in-depth, semi-structured interviews. The study focused on the Western Europe and North Africa region of Finpro. The interviewees involved in the investigation were six covering various managerial levels.</p> <p>The outcome of the data analysis, based on content analysis, revealed that the enhanced budgeting and reporting process implemented in 2011 were more efficient and effective. It is deemed, as proven from the data collected through this study, that to a certain extent, the commitment and involvement of managers increase proportionally with the increase in responsibility.</p>	
<b>Keywords</b> International management accounting, budgeting and responsibility accounting, trade centres, multinational corporations, reporting, responsibility centres	

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# 1 Introduction

The following work presents the outcomes of the research oriented study which was conducted between January 2012 and July 2012. The commissioning party of the study is Finpro Ry, hereafter called Finpro. Finpro is a Finnish multinational organisation operating in Finland and in several foreign markets. Finpro focuses on international business. Finpro is a service company offering strategic consultancy for Finnish enterprises, especially companies aiming at internationalise.

In 2011, I carried out an internship at Finpro Italy, Finpro's trade centre located in Milan, and I was introduced to the budgeting and reporting process of the organisation. Hence, I partially experienced the preparation of budgets in a multinational organisation, the challenges and advantages related to it. From the complexity of a budgeting and reporting process carried out in a multinational organisation arises the need for constant research and development.

In 2011, Finpro introduced a new framework for the budgeting process. The new process was called: regional budgeting process or financial frame at regional level. The regional approach involved a greater degree of responsibility of the regions, and a higher degree of participative budgeting. Hence, the purpose of this study was to examine the results of budgeting and reporting at regional level after one year of implementation. The size of the research was circumscribed and the focus was the Western Europe and North Africa region. Within the region the following trade centres were investigated: Finpro Italy, Finpro Spain, Finpro Denmark, Finpro Germany, and Finpro Austria. Six managers were interviewed covering different managerial positions. For privacy reasons the name of the interviewees shall remain anonymous.

The final purpose of the following work was to deliver ample benefits to the stakeholder, the commissioning party Finpro Ry. The commissioning party acquired a valuable in-depth knowledge usable for future developments. The outcomes and recommendations are presented in the conclusive chapters of this report.

## **1.1 Purpose of the research**

In a multinational organisation budgeting is particularly challenging due to coordinating subsidiaries located in other countries than the country of origin. Additionally, in multinational organisations, as Finpro Ry, it is generally utilised a participative budgeting system, which is time consuming, complex and risky. The complexity of participative budgeting carried out across countries creates the need for new solutions to enhance the process.

Therefore, in 2011 the Finance / Controlling unit of Finpro, located in Helsinki, implemented a new framework for budgeting, a regional budgeting process. The regional approach involved a shift of responsibility from the finance department based in Helsinki, to the regional offices. As it will be explained in the following chapters, the organisational structure of Finpro is divided into several regions. Through the implementation of a regional framework, regions were made accountable and in charge of the coordination of budgets.

The objective of this research was to gain an in-depth understanding of how the budgeting system implemented in 2011 was perceived by the participants after the first year of implementation, and whether it did or did not stimulate the involvement and commitment of the participants. Additionally, another complementary objective of this research was to gain knowledge related to the challenges, advantages and disadvantages of participative budgeting carried out across regions and trade centres.

Following the setting of the research objectives, the research problem was defined: the budgeting and reporting process of a multinational organisation across regions and trade centres.

The focus of the following work was the budgeting and reporting process: the steps undertaken to create the yearly budgets and the reporting phase, the role of the trade centres and regions, the role played by the lower level managers, the advantages, disadvantages, and the solutions to overcome them.

## **1.2 The benefits to stakeholders**

As it was mentioned previously, the budgeting process of a multinational organisation is particularly challenging, time consuming and extremely important. Therefore, the managers of the financial department every year invest time and resources in seeking new solutions to enhance it.

The benefits for the stakeholder, the commissioning party, were several. The benefits can be summarised as: qualitative analysis supporting the development of future implementations, and value adding recommendations.

## **1.3 Final outcome of the research**

The final outcome of the thesis conveyed significant results and suggestions for the organisation. The results of the study produced new methods and solutions to overcome the challenges related to a budgeting and reporting process performed on a multinational level.

The organisation shall utilise the findings to enhance the budgeting process and reporting practices. Through the research important observations and suggestions were provided to spur the efficiency and reliability of the participative budgeting, and consequentially to gain more solid degree of managers' commitment. Furthermore, the communication barriers undermining the relations between the managers at different level of the organisation shall be overcome.

## **1.4 The commissioning party**

Finpro is an historical association of Finnish enterprises which was founded in 1919 in Turku, under the name of Finnish Export Association. Finpro is a Finnish organisation intending to support Finnish smes growing globally and successfully. It operates on global scale, employing over 350 professionals in 66 offices in around 40 countries. Finpro offers a range of consulting services to Finnish enterprises interested in

entering the right market, in the right time, with the right business model and to be sustainable and successful over time.

Finpro consists of 500 organisations, the Confederation of Finnish Industry and Employers, and the Finnish Entrepreneurs Organisation. Finpro is a non-profit organisation and it is partially subsidised by the Finnish Ministry of Economy. The 500 members companies are the cornerstones of Finpro. In fact, they play a fundamental role in promoting the internationalisation and the competitiveness of Finnish enterprises worldwide.

The organisation employs around 350 professionals: 255 abroad and 95 in Finland. Finpro possesses around 58 commercial offices abroad and 8 in Finland. (Finpro 2012). The internal structure of the organisation of Finpro is complex. The complexity of the structure of Finpro is closely reflected in the reporting and in the budgeting process. Therefore, it is important to clearly describe the structures, the units, and the role played by each division.

The headquarters of Finpro are located in Helsinki, Finland. At the headquarters operates the Chief Executive Officer, hereafter named CEO. Besides the CEO, Finpro is structured into two main units: supporting units and implementation units. The supporting unit includes four divisions: Communications & Marketing, Finance & IT, Human Resources, and CEO's Office. The supporting units are based in the headquarters. The main role of supporting units is to prop the operation of the organisation and of the other divisions. The implementations units are divided into two main divisions: Customer Relations and Operations & Network. The roles of the implementation units are mainly two: selling and performing services.

The Customer Relations division is further divided into industries: Construction, Machinery and Logistics; Energy, Environment and Forest; Life Sciences; Software and Digital Media; Services. The main purpose of the Customer Relations is to increase market shares and create a long-term committed with clients. The Operations & Network is sub-divided into regions: Africa, Americas, Asia, Central & East Europe



and Middle East, Finland, India, Russia, Baltic and CIS countries, West Europe and Africa. Each region encompasses several trade centres. The role of the trade centres' residing in each region is to carry out the services sold by the Customer Relations unit. Both units, Customer Relations and Operations and Network, are complemented in their operations by the supporting units.

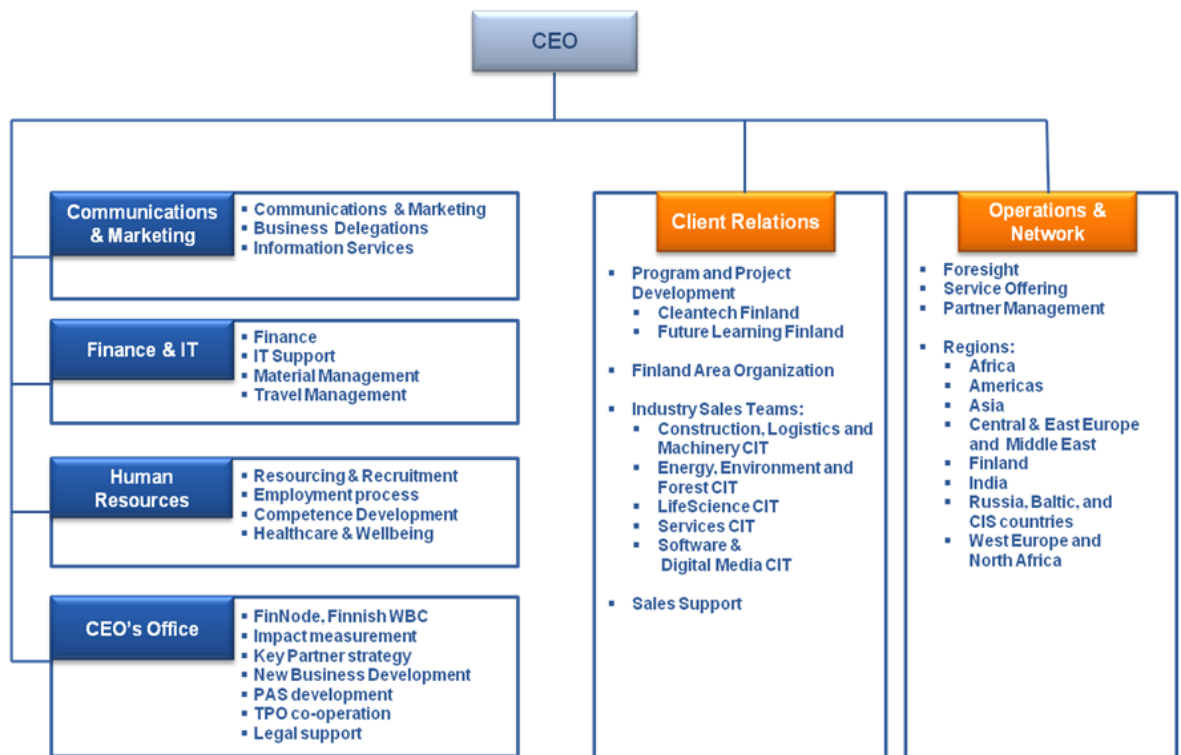


Figure 1. The organisation structure of Finpro (Finpro 2012)

## **2 Theoretical framework**

### **2.1 Key theoretical concepts and terminology**

It was deemed beneficial, for the comprehension of the reader, to briefly introduce the basics concepts inherent with the topic of the study. This section provides the reader with the main concepts which relate, directly or indirectly, with the analysis of the research. After acquiring the main notions, the reader is empowered with the tools to comprehend the nature of the work. The main and most important theoretical concepts of this research shall be deeply and thoroughly investigated in the next sub-chapters.

- International business: trades and operations carried out across countries.
- Multinational corporation: a company operating in various countries, maintaining the headquarters in the country of origin.
- International managerial accounting: accounting for internal use. The purpose of managerial accounting is to provide useful reports for the managers within a company. Managerial accounting support managers in planning, in controlling and through the process of decision making.
- Responsibility accounting: is a system which measures the financial performance of each responsibility centre. Especially, responsibility accounting evaluates budgeted figures against actual results.
- Responsibility centre: a subunit of the company for which the manager is responsible to a certain extend and for specific activities
- Budgets: "quantitative expression of a proposed plan of action by management for a specified period and an aid to coordinate what needs to be done to implement that plan." (Horngren, Datar, Foster, Rajan & Ittner 2009, 207)

- Budgeting: a managerial accounting tool intended to plan and control revenues and expenses in relation and against the plans. The final purpose of the budgeting is to achieve the goals set by the company.
- Participative budgeting: a type of budgeting practice through which the managers of an organisation, covering various managerial positions, are involved in the budgeting process.
- Budgeting committee: a committee formed for the purpose of analysing every budget suggestions and preparing the final budget guidelines. It includes the managers of each division of the value chain.
- Master budget: a comprehensive document including all the supporting budgets: budgeted income statement, capital expenditure budget, financial budgets.
- Financial reports: documents created internally or externally, displaying accounting data and stating the financial position of a firm. Financial reports are generally prepared at the end of a fiscal year, a twelve months period. It is at discretion of a firm to prepare and deliver them, for internal use only, in a different time-period, which could be a month or a quarter.
- Accrual basis accounting: used to prepare the financial statements. The accrual basis system records revenues and expenses when earned and incurred.
- Actual basis / cash basis accounting: the revenues and expenses are recorded when the actual money is received or paid out, despite the period when the revenue was earned or the expense incurred. Actual basis accounting is opposite to accrual basis accounting.
- WEA: Western Europe and Africa region. This is one of the regions constituting Finpro international.

- HQ: Headquarters. The headquarters of Finpro are located in Helsinki and they comprise the administrative offices: Finance & IT, Communications & Marketing, Human Resources, and CEO's Office.
- FC: Finance / Controlling; the specific subunit of the Finance & IT department, responsible for the finance management of the whole organisation. The FC is responsible for the coordination of the budgeting process of the whole Finpro.
- HR: Head of the Region, the top manager of a region. The region investigated in this research is the Western Europe and Africa.
- ROM: Regional Office Manager; the person responsible for the budgets of the whole region.
- HT: Head of Trade Centre, the manager of a trade centre within a region. Depending on the Region, there several trade centres located in various countries within a region.
- OM: Office Manager of a trade centre. The Office Manager is person responsible for the budgets of the trade centre.

## **2.2 Budgeting process**

“Budgeting is perhaps the most widely used management accounting tool employed by companies, organizations, and governments throughout the world. All organizations use budgets...to plan for the future and control the revenues and expenses related to those budgets.” (Braun, Tietz & Harrison 2010, 475-476). And also: “Budgeting is a time-consuming process that involves all levels of management.” (Horngren et al. 2009, 210).

Budgeting is a process which plays a significant role within an organisation. The preparation and coordination of budgets are some of the most important and demanding phases during the fiscal year. As it is stated in the definition quoted above, through the budgeting managers, from all managerial levels, are required to estimate future costs and revenues. The estimations shall lastly lead to the determination of how to allocate the resources available.

Budgeting is especially vital and fundamental for a multinational organisation which carries out operations in several countries as Finpro. Budgeting in a multinational organisation is especially taxing as it involves issues such as currency, legal, and political. According to Horngren et al. (2009) for multinational companies budgeting is a useful tool utilised to overcome the uncertainties of different environments.

As circumstances change, companies revise their budgets...the goal of budgeting is to help managers throughout the organization to learn and to adapt their plans to the changing conditions and to communicate and coordinate the actions that need to be taken throughout the company. (Horngren et al. 2009, 227).

The phase in which managers determine how to utilise resource it is called: decision making process. "...the five steps of decision-making process...Identify the problem and uncertainties, make predictions about the future, make decisions by choosing among alternatives, and implement the decision, evaluate performance, and learn.." (Horngren et al. 2009, 35).

At Finpro, the budgeting process is participative. "As the terms implies, participative budgeting involves the participation of many levels of management." (Braun et al. 2010, 477). The figure below (figure 2) provides a clear graphical depiction of the managerial levels which are generally involved in participative budgeting.

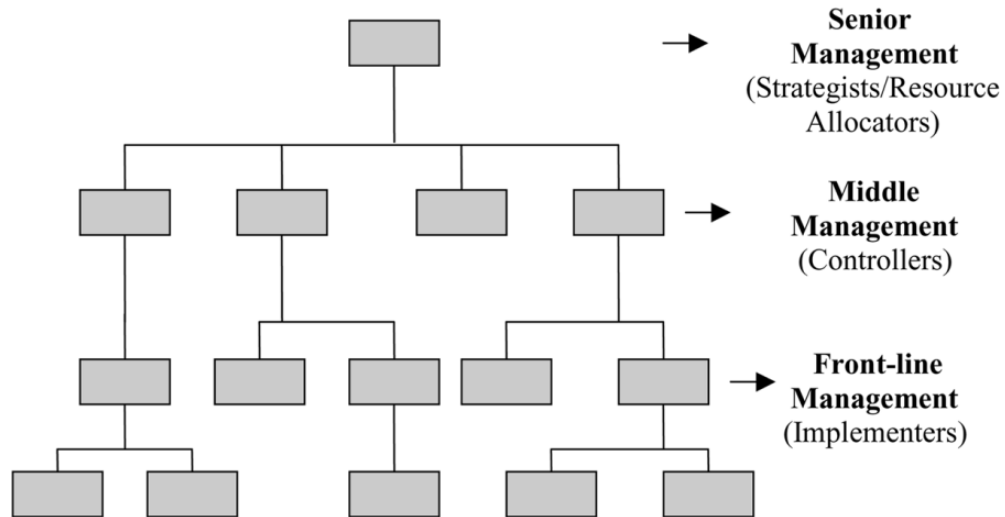


Figure 2. Participative budgeting. Brown & Atkinson (2001).

Several are the arguments concerning the participative budgeting; in fact it poses great benefits alongside with great disadvantages. Participative budgeting empowers managers at every managerial level and, according to theory, should spur their motivation and commitment. “Participative budgeting is beneficial because lower level managers are closer to action, and should have more detailed knowledge for creating realistic budgets, managers are more likely to accept, and be motivated by budgets they helped to create.” (Braun et al. 2010, 477).

However, despite the positive aspects, there are numerous disadvantages as: time consumption, the complexity of the process, and the building of slacks within the budgets.

Participative budgeting also has disadvantages: the budget process can become much more complex and time consuming as more people participate in the process. Managers may intentionally build slack into the budget for their area of operation by overbudgeting expenses or underestimating revenue. (Braun et al. 2010, 477)

According to Horngern et al. (2009) budgetary slacks are defined as a practice carried out intentionally by managers to underestimate budgeted revenues, or to overestimate budgeted costs, and consequentially making the targets more attainable.

In Finpro, budgeting is carried out every year from approximately mid-August to mid-October. During the budgeting period, the Office Managers of the trade centres and of the regional offices are required to prepare the budgets for the following fiscal year. Preceding the implementation of a new budgeting framework, throughout the whole budgeting phase, the Office Managers had a direct contact with the Finance / Controlling unit, besides receiving support from the superiors. The tentative budgets were sent to one referent of the Finance / Controlling unit for screening, as well as the final budgets.

In 2011, the Finance / Controlling unit of Finpro, located in Helsinki, implemented a new framework for the budgeting process. The new process, called regional budgeting process, involved a swift of responsibility from the Finance / Controlling unit to the regional management. The regional management team was in charge of the coordination of the budgets within the region. The management teams of every region were provided with strict guidelines to be followed, especially in terms of profits and costs targets. Consequentially, as a result of the swift of responsibility, regions were made more accountable for the regional figures, alongside with a higher degree of responsibility over the figures presented by the trade centres. Regions were required to conceive, in direct cooperation with the trade centres, upon how to reach the targets.

To attain the goals described in the master budgets, a company must coordinate the efforts of all its employees – from the top executive through all the levels of management to every supervised worker. Coordinating company's efforts means assigning responsibility to managers who are accountable for their actions in planning and controlling human and other resources. (Horngren et al. 2009, 223).

Within the new framework, the referent for the Office Managers of the trade centres' became the Regional Office Manager, next to the Head of the Region and the direct superiors. The budgets were to be sent to the referents mentions above, for screening and validation. Following the approval of the regional management team, the budgets were sent by the Regional Office Managers to the Finance / Controlling unit, and lastly to the CEO.

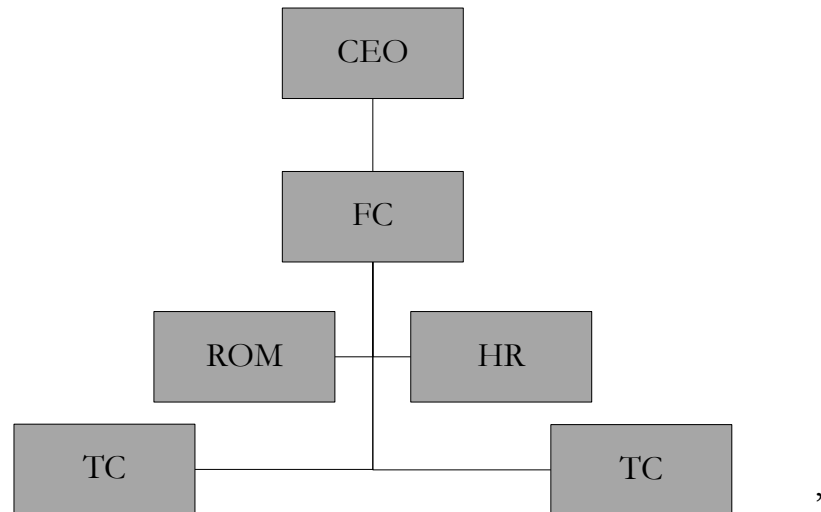


Figure 3. Finpro's participative budgeting process

The managers within the regions, especially the Regional Office Managers and Heads of Regions, were remarkably empowered, whereas the responsibility of the Finance / Controlling unit was slightly eased. The new approach increased the degree of involvement of managers in lower managerial positions, and possibly the degree of commitment.

### 2.3 Responsibility accounting

“Responsibility accounting allows upper management to ‘divide and conquer.’ The company’s operations are divided into various responsibility centers and the manager is held responsible for making sure the center is run as effectively and efficiently as possible.” (Braun et al. 2010, 497).

In a multinational organisation the responsibility centres are significantly important as they represent: “A responsibility center is a part or a subunit of an organization whose manager is accountable for specific activities.” (Braun et al 2010, 497). Each responsibility centre is responsible for performing specific activities at a predetermined level, which are to be evaluated, generally, at the end of the budgeted year.



In the previous chapter the structure and the units of Finpro were illustrated. Every unit and subunit is accounted as responsibility centre. Finpro is structured into two main units: supporting units and implementation units.

The supporting units, including Communications & Marketing, Finance & IT, Human Resources, and CEO's Office, complement the implementation units. The main activities of the supporting units are to provide crucial support to spur the performance of the other divisions. To provide support does not generate, directly, neither revenues, nor profits. Yet the support units, to contribute to the success of the other business units, naturally face expenses related to everyday operations. Hence, the supporting units are considered cost centres. The managers, hereafter named Heads (Finpro 2012), of cost centres are accountable for the expenses generated throughout their operations. "Cost centre – the manager is accountable for costs only." (Horngren et al. 2009, 223.)

The implementation units are divided into two main divisions: Customer Relations and Operations & Network. The main activities of the Customer Relations division, including each industry sub-unit, are to increase the market shares by acquiring new customers, in other words, selling Finpro's service. As the main activities of the units relate to sales, the Heads of each unit are liable for the revenues generated. Hence, Customer Relations is considered a revenue centre. "Revenue centre – the manager is accountable for revenues only." (Horngren et al. 2009, 223.)

The activities of the Operations & Network unit, including each region and its trade centres, relate to the implementation of the services sold by the Customer Relations unit. The Operations and Network does not engage in selling activities, however, it is by performing the services that revenues are realised. Additionally, the implementation of the services produces costs. Operations and Network is indirectly accountable for generating revenues, but directly responsible for realising profits. The Operations and Network unit is reckoned as a profit centre. The Head of the Operations & Network and of each sub-unit are liable for the costs and the profits. "Profit centre – the manager is accountable for revenues and costs." (Horngren et al. 2009, 223.)

## 2.4 Reporting process

Reporting is a process that occurs inside an organisation monthly, or quarterly, or yearly basis, at discretion of an organisation. Reporting refers to the delivery of documents assessing the performance of a unit, or division, within an organisation for internal use. Performance reports should not be confused with financial statements, documents prepared for external users as creditors, governments, agencies, shareholders, and suppliers. Internal reports are documents addressed to the managers of a firm, group, organisation, which support managers in the process of decisions making.

Performance reports are directly related with responsibility accounting. In fact, reports are prepared and the financial performance is assessed per responsibility centre. The financial performance of each responsibility centre is then evaluated.

Evaluating performance is central to an effective control system. A properly designed performance evaluation system allows top management to (1) ensure managerial is consistent with strategic priorities, (2) judge the profitability of existing operations, (3) spot areas that are not performing as planned, (4) allocate limited corporate resources productively, and (5) evaluate managerial performance...inappropriate standards of performance may motivate overseas managers to take actions not in line with corporate goals. Direct consequences are reduced corporate efficiency and (possibly) reduced competitiveness. (Choi & Meek 2011, 369).

The reporting procedures at Finpro are particularly extended and complex due to the fact that the organisation operates in approximately 40 countries and possesses 66 offices around the world. In Finpro the performance reports per responsibility centre are delivered, prepared, and provided by the Finance / Controlling unit on monthly basis. The performance reports are particularly important as they support the business operations and provide an updated picture of the financial situation.

The focus of the following investigation was the reporting process and performance reports occurring within the Operations & Network unit, specifically within the

Western Europe and Africa region, hereafter named WEA (Finpro 2012), classified as profit centre.

The performance reporting process within the Operations & Network unit and the WEA region is summarised as displayed in figure 4.

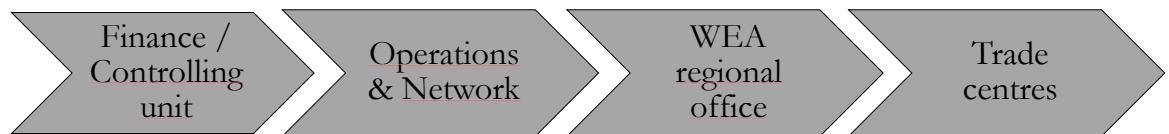


Figure 4. The performance reports stream of the Operations and Network unit

As it was mentioned previously, the Finance / Controlling team prepares the financial reports based on the figures per region and per unit. The Finance unit prepares the reports based on the financial information received, through the support of a specific software, from each trade centres. Hence, the initial stream of information begins at trade centre level. The Head of a Trade Centre or the Office Managers of a trade centre within a region, insert the figures into the accounting software, VIP.

Additionally, every employee, within the WEA region, is to insert the worked hours per day by project. This information is received by the Finance team, which will then proceed to the preparation of the reports based on the accrual figures.

Once that the integrated reports are finalised, the Finance / Controlling unit dispatches them to each division in the form of excel sheets and utilising specific templates. From the division, the reports are forwarded to subunit and to the trade centres.

Additionally, the integrated performance reports are submitted to the CEO for evaluation. The CEO evaluates the financial performance of the responsibility centres comparing actual figures against budgeted and according to their degree of liability.

“The CEO’s report includes a summary of each division’s actual and budgeted profits,

as well as the costs of incurred by corporate headquarters, which are not assigned to any divisions.” (Braun et al. 2010, 499).

### 3 Methodology

The study which is presented in the following work is an example of qualitative research. For the goal of this study, the qualitative approach was deemed to serve the purpose the best. In fact, Finpro runs a yearly quantitative research after the end of the budgeting period to gain feedback. However, the quantitative data do not provide an in-depth understanding of how managers really perceive the budgeting system. Qualitative studies and qualitative methodologies are utilised whenever the intention is to gain meaning and in-depth understanding.

The aim of qualitative studies is to gain an in-depth understanding of a situation. In-depth understanding is based on researcher immersion in the phenomena to be studied, gathering data which provide a detailed description of events, situations and interaction between people and things, providing depth and detail (Patton 1980). It is concerned with things that really happen in organizations as researchers and people experience them. (Carson, Gilmore, Perry & Gronhaug 2001, 65).

Following the assessing of the objectives of the research and defining the research problem, as it was explain in the first chapter, the data collection methods was chosen: in-depth interviews.

#### 3.1 Interviews

The qualitative research was supported by the collection of primary data. The data collection in a qualitative research can be carried out via various means: observations, interviews, text data, focus group, and audio data. Above all, interviews were claimed the best method to collect valuable data inside the organisation. “Interview data is a major source, perhaps the major source, of information for many qualitative researchers.” (Carson et al. 2001, 73).

The interview questions were designed in cooperation with the Business Controller of Finpro’s Finance / Controlling unit. The interview was structured into two sections: one section concerning the budgeting, and the second section relating to the reporting process. The questions were highly structured to support the validity of the results;

nevertheless the questions were open-ended to stimulate the comments and opinions of the interviewees.

The interviewees were chosen within the WEA region. The interviewees covered different managerial position to broaden the scope of interviews and gain feedbacks from different perspectives. The interviewed candidates were six and in the following managerial positions: Heads of the Trade Centres, Office Managers of the trade centres, Head of the Region, Office Manager. As it was mention at the beginning of the report, for privacy reasons the name and the positions of the interviewees shall not be disclosed within the data analysis, or in the references.

To motivate respondents to arrange a meeting for the interview, and to make the process more efficient, the fac-simile of the interview with an introductory short presentation was sent to every interviewee in advance. Thus, the respondents had time to familiarise with the structure and questions, and to be prepared on the day when the actual interview would have taken place. The interviews were conducted via mobile phone / computer and, whenever feasible, face to face. The interviews conducted via telephone, five out of six, were so that I was to call the office number of the interviewee. In practice, I was in Helsinki and I called via mobile phone the interviewee sitting in e.g. Madrid, or Milan, or Munich. The mobile phone call was redirected to the computer of the respondent, who via a special programme was enabled to answer the call. The interview was conducted so that I read the questions to the interviewees and in the meantime I wrote down the answers on my computer. I and the respondent both had the interview file opened in front of us, which facilitated the understanding, the communication, and the validity of the data collected. One interview was conducted face to face at Finpro's headquarters located in Helsinki. The face to face interview was conducted applying the same system explained above: questions were read to the respondent and at the same time answers were written down on the answering sheet on the computer.

### 3.2 Data analysis and validity

Qualitative research provides great benefits, but it poses two main issues: the data analysis and the validity of the results. After collecting a considerable amount of, literally, words, it is challenging for a researcher to analyse them in a systematic and trustworthy way. Therefore, the best approach to qualitative data analysis for a researcher consists of content analysis. Content analysis implies the coding of words into categories per topic.

Most qualitative researchers use some form of content analysis to analyse their data, that is, they code groups of words in their transcripts into categories.

These categories are usually determined from the research topics that were the starting point of for the research. (Carson et al. 2001, 83)

The validity of the results deriving from a qualitative study is the second thorny issue. In fact, methods or criteria to guarantee the trustworthiness of a qualitative research do not exist. Actually, a qualitative research can be affected by many factors that the researcher cannot foresee, expect, or avoid.

The validity of the qualitative empirical findings of the following work was ensured through: the use and examination of appropriate theories and literature, the understanding of the qualitative methods and the justification of the appropriateness of the qualitative research via appropriate literature, an accurate categorisation, evaluation, assessment, and investigation of the data in relation to the subjects of the research.

## **4 Data analysis**

The data analysis presented in the following chapter is based on an accurate examination and evaluation of the data collected between February and May 2012. The purpose of the data analysis is to truthfully investigate the data obtained via interviews and to logically present the main meanings. The data were collected via interviews. The interviewees were representatives of the WEA region from different management positions. The sample was diversified and the interviewees were selected from different managerial levels as the perception of budgeting interestingly varies, as it will be elucidated in the next sections, according to the position of the manager.

Overall, the main opinions and the feedbacks provided by most of the interviewees, except one case taking a rather distant opinion, were fairly homogeneous. Nevertheless, it was important, for the purpose of this research, to keep into consideration and investigate further details, opinions, suggestions, that may have a significant impact on the budgeting and reporting process, and especially for future implementations.

### **4.1 Budgeting 2011**

In a multinational organisation, budgeting is the process which occurs once a year and through which managers are required to prepare a financial plan of the expected revenues and costs for the upcoming year.

As explained during the first chapters of this work, the Operations & Network division is subdivided into regions and trade centres. In the past years the main referent for every region and every trade centre during the budgeting period was the Finance / Controlling team. Every trade centres was accountable for its own figures and was to submit the budgets directly to the Finance / Controlling.

During 2011, regional offices were empowered and were made accountable for the figures of each trade centres within the region. The regions were given the framework, the targets, and were required to prepare regional budgets matching them. Regional



budgets included trade centres' budgets; therefore, regions were in charge of coordinating the trade centres' budgets and to match them against the regional targets. The referee for the trade centres shifted from the Finance / Controlling team to the Regional Office Managers and the Head of Regions. Following the new *modus operandi*, the trade centres referred to the regions and justified the figures to the direct superiors. Overall, regions and trade centres were empowered, made liable and responsible for each other's budgets.

#### **4.1.1 The framework**

The majority of the respondents perceived the budgeting approach at regional level to be more successful than the previous approaches. The role and managerial level of the interviewees, as explained previously, had a slight influence on the perception of the new *modus operandi*, likewise the role played within the regional framework. Nevertheless, the comments of the respondents were mostly homogeneous.

“Overall, this year the process was more efficient.” (Interviewee 3, 30 Apr 2012).

“I fully believe in the regional approach instead of a single trade centre view...The region's perspective is the way to go rather than the trade centres' one...Overall, it has been a positive experience.” (Interviewee 4, 4 May 2012).

“Overall, this year was more efficient, better structured and easier.” (Interviewee 1, 18 Apr 2012).

“Previously the budgeting process has been less efficient. Overall, this year the budgeting was easier and numerous improvements were implemented.” (Interviewee 5, 22 May 2012).

The analysis of the data collected indicated that two were the main features perceived by the respondents characterising the new approach: efficiency and ease.

“The regional framework gave more support for the trade centre... I suppose that it was easier for Financial / Controlling to relate with one contact person rather than many Office Managers across trade centres.” (Interviewee 1, 18 Apr 2012).

“This year budgeting process was definitely easier.” (Interviewee 4, 4 May 2012).

“From the process point of view, it was easier and more efficient and more effective...This year process was easier than previous year, especially for the management.” (Interviewee 3, 30 Apr 2012).

Through a deeper investigation, it became clear that efficiency and ease were interconnected and that one influenced the other as in a virtuous circle.

The ease of the new approach derived from a process which appeared more logically and rationally structured. The guidelines provided were informative and comprehensive; the framework was strict and clear, alongside with an increased degree of accountability of each responsibility centre.

“The preparation of the budgets at regional level was more efficient and more structured.” (Interviewee 5, 22 May 2012).

“The regional framework provided the framework and the necessary information.” (Interviewee 4, 4 May 2012).

It also appeared that the ease was the natural result of the use of a common language and a common understanding at every level of the organization. The “common understanding” referred to directly discussing and referring with contact persons within the region, rather than referring with the Finance / Controlling team at headquarters level.

“Regional Office Manager possesses a better understanding related to the needs of a trade centre, leading to can better communication and understanding with Office

Mangers...The Regional Office Manager making the budgets in co-operation with the Office Managers acquires a better global view of the region in terms of costs, income, and structure of the region...The communication was easier through the Regional Office Manager compared to previous year when we communicated more to Finance / Controlling. In fact, the perspective at trade centre level and Finance / Controlling level varies consistently. The Regional Office Manager serves as moderator and facilitator of the communication and understanding of the two parties...” (Interviewee 1, 18 Apr 2012).

“...This year budgeting process was very satisfactory and certainly easier. In fact, this year there was a common understanding and a common thinking...One of the positive feature of the budgeting at regional level lies on the fact that there is a common understanding and “language”...” (Interviewee 5, 22 May 2012).

The efficiency derived from obtaining the results utilising the resources more fruitfully, in terms of time and workforce. In fact, the regional framework was perceived to be more incisive. The efficiency was obtained from the interaction of the several factors mentioned above: clear structure, clear guidelines, common language, common understanding.

Furthermore, the data showed that, despite the framework being very strict, in average the interviewees recognised himself / herself with a higher degree of empowerment over the decision-making process:

“As we had the budget framework, we could then decide on investments and cuts on the regional level.” (Interviewee 4, 4 May 2012).

The figure of the Regional Office Manager was frequently prized, especially as it played a major role in the regional budgeting process. With an absolute frequency, every respondent stated the importance of the Regional Office Manager during the last year budgeting period, and the inestimable support provided by it. It was clear that the

Regional Office Manager played a great role and it was one of the key figures within the new approach.

“This year I received more support from the Regional Office Manager...” (Interviewee 1, 18 Apr 2012)

“I received a great support from the Regional Office Manager.” (Interviewee 3, 30 Apr 2012).

“The Regional Office Manager was a treasure, doing an extensive and very remarkable work.” (Interviewee 4, 4 May 2012).

The income and costs targets were perceived particularly challenging and tight. The income targets, despite being set higher, for the majority of the respondents were reckoned reasonable and achievable.

The costs targets represented the biggest challenge. The common opinion pervading the respondents' comments was of the cost targets being exceptionally tight. Especially, it was emphasised that the costs targets focused mostly on a cost cutting programme. Cost cuts are certainly measures to be undertaken, in particular when it comes to period of economic crisis. Nonetheless, this empirical research proves that pursuing such a policy shall have negative effects in the long run. Above all, the negative effect influences the attitude and psychological state of the employees, which will be automatically reflected on the atmosphere in the work premises and commitment. Lastly, subsists the risk is to have negative impact on the outcome of the organisation.

The respondents recognised the necessity of costs reduction measures, nonetheless, focusing for several sequential years on a costs cuts mode was perceived as an unproductive strategy. In particular, when costs reduction reaches levels involving redundancy, it leads to pessimism for the future expectations, loss of involvement and loss of commitment.

“The cost targets were still consistently on the costs cutting mode. I feel this is not a productive approach, I believe we should concentrate on ways to spur our business besides reducing costs.” (Interviewee 4, 4 May 2012).

“Income and costs targets were both exceptionally challenging. The income targets were set at higher level whilst the costs targets were lowered. The costs cutting resolved into personnel reductions, which were the most challenging aspect.” (Interviewee 2, 26 Apr 2012).

“The cost targets were tight. I am not completely satisfied with them as been that tight...” (Interviewee 5, 22 May 2012).

“The targets were particularly tight. The costs targets were almost too tight and income targets were challenging.” (Interviewee 3, 30 Apr 2012).

“In 2009-2010, the costs targets were dramatically reduced and the cost saving program was very severe, whereas in 2011 the costs saving program was milder. Nonetheless, at the moment, we approached an ending point with costs saving, for it any extra can be saved next year. We already cut as much as bearable, we cannot reduce any further.” (Interviewee 1, 18 Apr 2012)

Numerous respondents stressed the significant reductions related to travel budgets, which undermined the sales activities of the sales force and of the accounts’ managers.

“The income targets were quite high. The costs targets: we did not have any travel budget, but we had a lot of resources assigned for internal training. In my opinion, the resources were allocated in the wrong way.” (Interviewee 6, 29 May 2012).

In a case, valuable mentioning, the whole budgeting process within regions was considered greatly negative. If fact, it was the belief of the respondent that the regional approach led to time consumption and inefficiency. According to the respondent’s

opinion, the regional approach added one more step within the chain of the budgeting process, and consequentially, it became more time consuming. The preparation of the budgets against the region's figures was considered more ineffective than a country referring and being liable only for its own figures.

“With the new approach we have to change all the time figures according to the region. I feel the regional process involves one step more in the approach. I feel it is more time consuming.” (Interviewee 6, 29 May 2012).

Predominantly, all the respondents provided a positive feedback concerning the regional approach and awarded it as a positive experience, wishing to pursue its utilisation

#### **4.1.2 The support**

The following section of the data analysis focuses on the support. The support should be interpreted as: guidelines, instructions, and superiors' support.

The collected comments from the respondents showed that the instructions were considered exceptionally clear, informative, and concise.

“The instructions were good and comprehensive...” (Interviewee 2, 26 Apr 2012)

“The instructions provided were very clear, concise, and successful.” (Interviewee 3, 30 Apr 2012).

“The instructions were good and clear.” (Interviewee 4, 4 May 2012).

“In general, the instruction covered all the issues in a clear and conceive manner.” (Interviewee 1, 18 Apr 2012).

“The instructions were very comprehensive. This year, the instructions were certainly clearer and the improvements from the previous years were noticeable.” (Interviewee 5, 22 May 2012).

The disadvantages related to the instructions referred to the time delivery. Some of the interviewees commented on receiving the instructions, especially the specific instructions for the regional management, almost too late, causing the impossibility to familiarise with them prior the beginning of the budgeting period.

The receiving of the instructions within an acceptable time was considered of utmost importance, especially for the regional management team, which plays a key and supporting role within the budgeting process. Some interviewees stressed that, due to receiving the general instructions late, they were inadequately prepared by the time the budgeting period began. In other words, as the instructions were forwarded slightly late, some of the interviewees claimed that they did not have enough time to fully understand and familiarise with them. Consequentially, the beginning point of the budgeting was slightly inefficient and slower than how it should have been.

In terms of support within the region, the data analysis revealed that the Regional Office Manager was the key figure within the regional approach, followed by the direct superiors' and the Finance / Controlling. The Regional Office Manager was the main contact person for every participant to refer to. Every interviewee emphasised the solid and consistent support received from the Regional Office Manager and the remarkable work performed by the latter.

“The main guidance and support came from the Regional Office Manager and my superior.” (Interviewee 5, 22 May 2012).

“The core and comprehensive instructions and support were given by the Regional Office Manager.” (Interviewee 1, 18 Apr 2012).

“The Regional Office Manager was a treasure, doing an extensive and very remarkable work.” (Interviewee 4, 4 May 2012).

“The support from Finance and Regional Office Manager was very good” (Interviewee 6, 29 May 2012).

“We cooperated greatly with the Regional Office Manager. The Regional Office Manager was much needed and helpful. The Regional Office Manager is the most important person because is the person actually responsible for the figures, the one who actually inserts the figures. I received a great support from the Regional Office Manager...” (Interviewee 3, 30 Apr 2012).

The direct superiors were pointed out as complementary figures of the Regional Office Manager, yet playing a minor role in terms of support. The general idea was that every interviewee received somehow an adequate support from the direct superiors when needed to.

“My superior did not really give support as such, we discussed indeed...” (Interviewee 4, 4 May 2012).

“...Moreover, I had continuous discussions with my superior.” (Interviewee 2, 26 Apr 2012).

“The Head of Trade Centre represented an additional support...” (Interviewee 1, 18 Apr 2012).

However, none of the respondents directly wished for more support to be provided by the direct superiors, in complementation of the support already provided by the Regional Office manager.

The Finance / Controlling team was not indicated as primary source of support during the budgeting process. According to the majority of the respondents, the Finance /



Controlling provided supports in terms of instructions, guidelines, and templates preceding the budgeting.

“From the Finance / Controlling department I cannot say to have received support as for within the regional framework it was not required.” (Interviewee 5, 22 May 2012).

“The Finance / Controlling provided only the instructions and templates.”  
(Interviewee 1, 18 Apr 2012).

“From the Finance / Controlling I received the instruction, however for any problem I directly discussed with the Regional Office Manager” (Interviewee 4, 4 May 2012).

“...I also received support from the Finance / Controlling and my superiors.”  
(Interviewee 3, 30 Apr 2012).

“The Finance / Controlling provided me with all the needed support.” (Interviewee 2, 26 Apr 2012).

It should be noticed that, from the data collected, only in a few cases it was reckoned that the regional approach made more accountable manager at lower managerial level, and lightened the involvement of the upper management. In fact, during the previous budgeting process, as it was explained in the previous paragraph, the Finance / Controlling was actively in direct contact with every managers which involved a great deal of work and time consumption. Through the regional approach the Finance / Controlling remained the referent mainly for the regional management, Head of Regions and Office Managers, whereas the Regional Office Manager became the referent for the managers of the whole region.

The swift of responsibility lightened the work of the Finance / Controlling team over the budgeting. Being so, the Finance / Controlling team gained time to focus and carry on other significant operations. However, only in a few cases, at higher managerial position, the respondents reckoned and understood that one of the positive effects of

the new approach was to lighten the work load of the Finance / Controlling team, enabling the latter to concentrate on other issues rather than budgeting.

#### **4.1.3 The commitment**

The purpose of this chapter is to analyse whether the regional approach spurred or did not the motivation and commitment of the employees. In fact, the increase in commitment is considered, theoretically, one of the positive results of a participative budgeting.

“Top managers want lower-level managers to participate in the budgeting process because lower-managers have a more specialized knowledge and first-hand experience with day-to-day aspects of running the business. Participation creates greater commitment and accountability toward the budget among lower-level managers” (Horngren et al. 2009, 210)

As it was discussed earlier, Finpro implemented a participative approach during the past years. However, the participative budgeting within the regional framework implied a higher degree of responsibility linked to an increase of liability and requirements for the regional management. Consequentially, it is beneficial to comprehend whether these factors contributed to motivate and to raise the satisfaction of the interviewees. It was demanded to the respondents to estimate their level of commitment which followed the implementation of the regional framework.

“The motivation is and always has been high when it comes to do the budgets efficiently and correctly. This year I felt more involved as I had the possibility to communicate directly with Regional Office Manager compared to previous year.” (Interviewee 1, 18 Apr 2012).

“It is my belief that we should be more involved. I think that all the Heads of Trade Centres and Office Managers should be especially committed to the budgets and involved.” (Interviewee 5, 22 May 2012).

“...I am fully motivated with this approach both for the budgeting and the business planning.” (Interviewee 4, 4 May 2012).

“I always had a very good relation with Finance / Controlling. Hence, there have not been major changes in my involvement this year.” (Interviewee 3, 30 Apr 2012).

“This year framework implied a significant increase of work, nevertheless I was more involved and as a result, I felt more rewarded in the end...This year I was much more involved in budgeting. I was very motivated to get the region on the frame. It was a tough work but very rewarding in the end.” (Interviewee 3, 26 Apr 2012).

As deducible from the fragments of comments transcribed above, overall the degree of commitment of the interviewees increased with the implementation of the budgeting within the regional framework. In general terms, during the budgeting process 2011 the respondents perceived to have been more accountable, more involved, and consequently more committed. Despite the increase of work required, the involvement of each participant increased proportionally, leading to a significant degree of commitment and, in some case, satisfaction.

It should be mentioned that in a few cases interviewees wished for more involvement prior and during the budgeting process, especially in terms of possibilities to influence the guidelines and the figures.

“I would have liked to have had more influence on the guidelines before them been implemented.” (Interviewee 5, 22 May 2012).

In one case the regional approach did not constitute a factor spurring commitment. The respondent claimed that the degree of commitment was at a similar level as in the former year.

“I am not interested into the regional level, so I am not really more involved or motivated. It does not change anything in my work...” (Interviewee 6, 29 May 2012).

Taking into consideration the involvement and information received from the Finance / Controlling team prior the implementation of the new budgeting approach, the opinions of the respondents differed significantly. The range of responses varied from having perceived involved and informed of the upcoming changes, to having received poor guidelines and information. Especially, there was clear distinction of answers between respondents at lower managerial positions, who perceived to have not been informed of the upcoming changes. They claimed to have faced the changes upon the time they were implemented, which led to a slight feeling of frustration. On the contrary, the interviewees covering higher managerial positions seemed to have been informed, at least of some of the changes coming into force.

“I was well informed. We knew about the upcoming changes and implementations. We had some *telco*<sup>1</sup> before that.” (Interviewee 2, 26 Apr 2012).

“I received good information. I was involved and the information I received very clear and concise.” (Interviewee 3, 30 Apr 2012).

“The process and the date / timeline were a bit unclear.” (Interviewee 6, 29 May 2012).

“I think the information received was adequate and fairly good.” (Interviewee 4, 4 May 2012).

“The communication has been quite poor. The information I received very not sufficient and I have not receive any information prior the implementation. The size of the change was not clearly explained and stated.” (Interviewee 1, 18 Apr 2012).

“From Finance / Controlling we received general comprehensive instructions and explanations, which were surely good...Before the actual regional framework was implemented, I have not been involved in the process.” (Interviewee 5, 22 May 2012).

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<sup>1</sup> Finpro utilises the telco acronymus to identify telephone or video conferences via computer.

This paragraph of the analysis is particularly significant because provides the different perceptions according to the role of the respondents within the organisations. It also constitutes a benchmark for the communication efficacy within the organisations.

At every level of the organisation, the superiors are liable and responsible for communicating and informing the subordinates of the upcoming changes. Whenever a subordinate perceived to have not received adequate information and guidance, it might indicate a gap and inefficacy within the communication chain, which shall be investigated further.

Additionally, an inadequate communication might cause distress, and for instance, it might lead to lower degree of commitment. The data collected demonstrated that it is fundamental that at every managerial level, managers should be informed of the changes to be enforced and, especially, to understand the reasons behind them. The answers of the interviewee testified that the purpose of the implementation was not unanimously clear and understood.

#### **4.1.4 Advantages of the budgeting 2011**

Taking into consideration the advantages and disadvantages of the financial framework at regional level, several were the valuable comments provided by the interviewees. Overall, what were deemed to be the advantages overcame the disadvantages.

Despite more persons being involved into the communication process, and more screening rounds of the budgets needed, yet the financial frame at regional level was reckoned as clearer and more efficient. The advantages mentioned related especially to the factors analysed during the previous chapters: clearer instructions, clearer framework, better understanding, better communication, easier process, more efficiency, and more time given to prepare the budgets. What follows are some fragments of interviews relating to the aspects perceived by the respondents as advantages.

“Advantages: during this year budgeting we had more and enough time to do the budgets than before. The regional approach was good as well as the instructions. Furthermore, I am pleased for not using anymore the previous budgeting software programme (FTC Budget).” (Interviewee 4, 4 May 2012).

“The advantages certainly are more than the disadvantages; hence from my perspective, the regional framework in the way to proceed.” (Interviewee 1, 18 Apr 2012).

“The advantages: a more structured regional approach and more clarity on everything concerning the budgeting.” (Interviewee 5, 22 May 2012).

“Advantages: we knew the frame and so we had only one round of budgeting.” (Interviewee 2, 26 Apr 2012).

Furthermore, also the fact that the regional framework lightened the involvement of the higher level of management, giving the possibility to allocate their resources elsewhere, was acknowledged as an advantage. In fact, the shift of responsibility within the budgeting which was clarified and explained previously, did not imply the Finance / Controlling losing control over the budgeting process. The shift of responsibility implied that the Finance / Controlling might have the possibility to focus on other issues requiring the direct intervention of the Finance / Controlling department.

“Advantages: more efficient, less time consuming for the management and more efficient concerning how the process runs. Especially, from the finance department and superiors’ perspective, because they delivered the frame and then they could concentrate on other issues” (Interviewee 3, 30 Apr 2012).

“Last year, the figures were pretty much put together by the Office Manager and the Regional Office Manager, which is especially time saving from my perspective and for my role.” (Interviewee 4, 4 May 2012).

The budgets have the physical form of excel templates. The templates have undergone several implementations through the years. The latest developments of the excel templates were awarded as a great advantage. As the templates support the preparation of the budgets, they have a major impact on the efficiency of the process itself.

“Adv: Excel sheet were good, better than the previous programme. They are more detailed and I can review and remember figures better. The budgets are easier to do now a day.” (Interviewee 6, 29 May 2012).

#### **4.1.5 Disadvantages of the budgeting 2011**

A few, but nevertheless relevant to be mentioned, were the disadvantages of the regional framework perceived by the interviewees.

The communication was deemed, under certain aspects, as a disadvantage. The aspect of the communication which was deemed to be less efficient referred to the fact that more contact persons were involved. In fact, the communication chain during the budgeting process, from certain perspectives, required a longer time. Previously, the referee for the trade centres and regional offices was merely the Finance / Controlling. From a trade centre's perspective, the regional approach brought more referees, the Head of Region and the Regional Office Manager, in addition to the direct superiors. As displayed in the image below, it can be asserted that the communication shifted from the 'Wheel' type to the 'Y' type of communication.

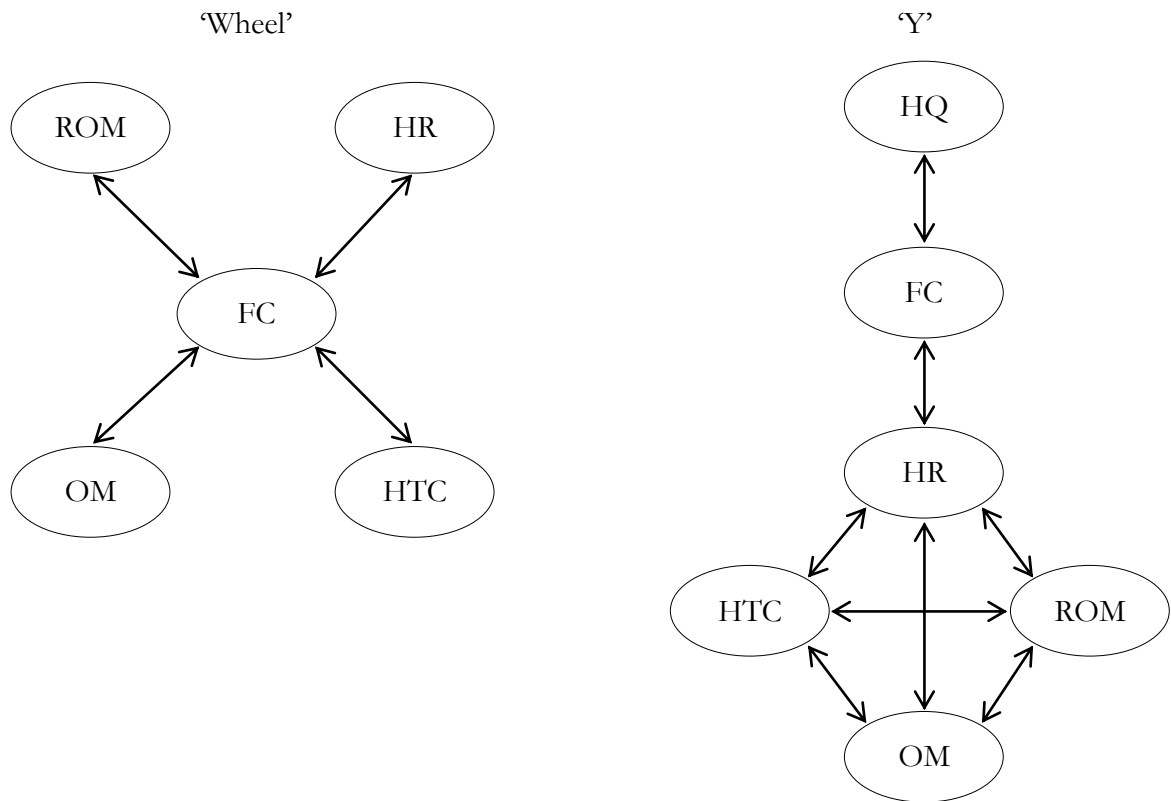


Figure 5. Groups' communication models. Image modified from San Miguel (2009)

From the trade centre's perspective, if previously the communication was unilateral and direct with the Finance / Controlling, last year the communication became multilateral with several interlocutors. Hence, if through the 'Wheel' type, the budgets were sent for checking to the Finance / Controlling team, via 'Y' type they were forwarded to the Office Manager and to the Head of Region. The additional step explains the reason for which, some of the interviewees, perceived the regional approach more efficient yet slightly time consuming.

"...more people involved and the communication is not direct with only one contact person, in fact it was needed the approval and double checks of many people. The process took longer...Overall, the process was slower but more effective" (Interviewee 1, 18 Apr 2012).

Yet the comments collected revealed diverse and opposing opinions about the communication efficiency. Despite the fact of more persons being involved in the communication, the improved understanding led to a more efficient communication.



Overall the communication was awarded as more effective, also due to the fact of the direct interlocutors being part of the same region. The understanding between players within the same region was easier and better than between the trade centres and the headquarters, as explained in the previous paragraphs.

The regional management perceived that the instructions and guidelines were provided later than expected. Nonetheless, the compliance with the deadlines and figures remained severely strict without any possibility for manoeuvre, which led to great challenges and anguish.

“We received the budgeting instructions later than expected and later than needed. The timeline was very rather tight. Additionally, the excel sheets arrived excessively late. Consequentially, my schedules did not match anymore. We had no time to familiarise with the instructions and with the excel sheets.” (Interviewee 2, 26 Apr 2012).

Probably the most important disadvantage which was perceived and which should be taken into great consideration, referred to the fact last year the frame was highly focused on costs cuts.

“Disadvantages: this year budgeting approach was perhaps greatly focused on costs reduction.” (Interviewee 5, 22 May 2012).

The costs’ reduction mode was stressed also previously, in other chapters. This empirical research proved that it should be given extra attention to this aspect, which might lead to severe consequences.

More than one interviewee claimed that when setting the framework and the targets, the environment of the headquarters, Finland, was used as benchmark. In a utopian scenario, the legal, economical, and political environment of Helsinki could be sampled to set a general framework usable in every country; however in reality it is unfeasible. In fact, even within Europe, local differences exist and might have a strong impact on

the budgets. Local differences might concern legislative discrepancies like information concerning the yearly adjustments to the employees' salaries: where in Finland such information is publicly available in a certain period, in other countries might not be yet available upon the budgeting period, as firmly stressed by one of the interviewee.

"I feel that Finland is perhaps used too much as benchmark. The local environment of each trade centre should be taken more into account...A difference which should be reckoned concerns the salaries: our payroll adviser cannot tell by August / September the changes which will occur because they have not been decided yet. Consequently, it is very difficult to estimate them for upon the budgeting period." (Interviewee 4, 4 May 2012).

As Finpro is a service organisation, employees' salaries account for the biggest part of the costs. Therefore, it is fundamental for the company to pay extra attention to the local legislation.

"Besides currency issues, multinational companies need to understand the political, legal, and, in particular, economic environments of the different countries in which they operate." (Horngren et al. 2009, 223.)

In addition to the paragraph above, it was pointed out that the targets were based on deceiving figures. In fact, it appeared that the figures were based on the previous year figures of trade centres, which were temporarily varied due to miscellaneous factors (maternity leaves, momentarily rental fees changes, travel expenses). According to the interviewees' account, these local differences were not reckoned, leading to targets which did not reflect the reality. Despite the figures being misleading, the possibility for corrections was not granted and still it was required to comply with the framework.

The fact that no changes are implementable to the framework, leads to another characteristic of the new budgeting approach perceived as disadvantage: the impossibility to have any impact on the figures.

#### **4.1.6 Suggestions for improvements and changes**

The communication and involvement at the Finance / Controlling level, prior the implementation of the new budgeting approach, was deemed quite scarce by the interviewees. Consequentially, several were the requests for changes on the process leading to the setting of the framework. The interviewees stressed the necessity and the wish to be consulted before the Finance / Controlling team would prepare the future frames.

“Before implementing the framework guidelines, it would be beneficial to have a phase to review them at trade centre level” (Interviewee 5, 22 May 2012).

“I would have appreciated and I would appreciate more discussion before the frame is set. I would have appreciated more discussion especially regarding the costs targets and budgets, particularly office rents, and travel budgets. Besides, more discussion related to sales margins.” (Interviewee 3, 30 Apr 2012).

Relating to the paragraph above, mostly every interviewee suggested and wished for the opportunity to discuss with the Finance / Controlling team upon matters concerning the figures and the targets, alongside with the possibility to influence them. Various interviewees highlighted the necessity for manoeuvre and for the necessity to have an impact on the figures during the setting of targets, and especially during the budgeting period.

“...there was not any possibility for manoeuvre.” (Interviewee 5, 22 May 2012).

“...wish to be able to influence the frame, to be able to check the figures if based on previous year, as the figures of the previous year might be influenced by: maternity leaves, changes in rents and other elements...The frame was based on August 2010, but certain factors have not been taken into considerations, for instance, the temporarily changes in rents expenses occurred in certain trade centres. Consequently, the frame created was deceiving, but we could not adjust it and we had to comply with it.” (Interviewee 2, 26 Apr 2012).

Furthermore, it was mentioned, as proposal for improvements, to provide the regional and general management instructions in advance, alongside with clearer regional schedules.

“The instructions should be received before...I would like to have a more detailed schedules including: when we can start, when we will obtain the instructions, and when we will receive the excel sheets, besides the deadline for submission. The ideal time to receive the schedule would be before summer.” (Interviewee 2, 26 Apr 2012).

To overcome local differences, it was suggested that some representatives from the Finance / Controlling department would visit the regional offices and trade centres. In fact, as it was discussed in the disadvantages section, it in the belief of the respondents that the reality of the headquarters located in Finland is utilised as benchmark. However, the business and operational environment varies greatly from countries, which creates severe discrepancies between Finland and the trade centres located abroad.

“It would be very useful and beneficial if someone from the Finance / Controlling would visit trade centres and regions to see, to understand the reality, and to observe the problems that the implementators face related to assignments and follow-ups.” (Interviewee 4, 4 May 2012).

One of the interviewee was under the impression that the budgets of the trade centres are at times modified at the headquarters levels, creating understandably difficulties and problems for the Office Managers at trade centres level.

“No changes of figures at regional level once we deliver the final version of the budgets.” (Interviewee 6, 29 May 2012).

During the budgeting period it is not possible to forecast every event which unexpectedly might happen within the fiscal year. However, unexpected events or

special happenings have an impact on the actual costs. Despite so, the budgets cannot be modified after the budgeted period has begun. Consequentially, it was suggested and recommended the creation of a regional contingency fund to buffer deviations from budgets.

“...it would be appreciable to create a regional fund for the unexpected deviations from the budgets.” (Interviewee 5, 22 May 2012).

Some respondents deemed the excel templates being not sufficiently user-friendly yet. A case as such indicates that improvements could still be performed, despite several useful enhancements already applied.

“The excel templates could be improved; they are not yet user-friendly enough. The templates were certainly enhanced, yet not enough.” (Interviewee 1, 18 Apr 2012).

It was mentioned that within the regional framework a new element was introduced: the time utilisation. The time utilisation referred to the calculation of the daily working hours per assignment. Yet the feedbacks received from the interviewees revealed a state of confusion and the wish for clearer instructions and information regarding the time utilisation component. In fact, it was claimed that the introduction of this new component was poorly explained and poorly supported by the general instructions.

“In this year budgets, one new element was introduced: the time utilization daily working time employed by employee per projects. The instructions related to this component were not clear; hence every region followed its own logic. For the next year this element should be better explained and planned.” (Interviewee 2, 26 Apr 2012).

As a last elements listed as suggestion, an interviewee stressed the significance of conducting an additional investigation as the one presented in this work in the very immediate period upon the termination of the budgeting. The performing of a qualitative research soon after the conclusion of the budgeting period shall grant the collection of the most valuable and useful comments for future developments.

“It would have been very beneficial to run this research after the budgeting period ended. The suggestions for implementations and / or changes would have been certainly several. To run this research after about ten months from the budgeting it is still useful; however I am afraid the details are difficult to recall. It could be reckoned as learning / action point for the next budgeting period.” (Interviewee 4, 4 May 2012).

## **4.2 Reports 2011**

The financial reports are documents showing the financial data over a certain period of time. The financial reports at Finpro are prepared monthly and they are of four types: sales report, revenues report, actuals and orders report, costs report. The department of Finance / Controlling is responsible for the preparation and delivery of the performance reports to managers within the regions on monthly basis.

In Finpro, the reports are supported by the utilisation of the accounting software VIP. The users input in the VIP programme the costs, the invoices, and worked hours per projects. Through VIP it is possible to access and to take out a limited number of financial reports. However, it should be underlined the difference between the reports taken from VIP and the financial reports prepared by the Finance / Controlling team. The reports taken from VIP are prepared on cash basis, whereas the financial reports prepared by the Finance / Controlling unit are accrual based. Furthermore, the accessibility of the reports varies depending on the type of report and the role of the user.

For the comprehension and the validity of this research, it is important to clarify that the following analysis scrutinises data concerning the performance reports prepared and provided by the Finance / Controlling unit. The reports accessible via VIP are taken into consideration and examined in a distinctive paragraph. Despite the deviation of the comments collected from the interviewees from the focus of the research, it was deemed beneficial for the commissioning party to analyses and to cite them anyhow.

#### 4.2.1 The framework

The data revealed a general satisfaction in relation to the structure of the reports utilised during the fiscal year 2011. The financial reports were indicated as user-friendly, very detailed and comprehensive, yet concise and delivered according to the schedules. One of the main characteristic of the financial reports 2011, which was stressed the most, related to the fact that they do provide a common understanding to every user.

As mentioned above the reports were considered user-friendly and informative. Respondents were conscious of the remarkable improvements which were carried out lately for the purpose of making the reports more understandable, useful, and comprehensive.

“I am satisfied we the reports received from headquarters.” (Interviewee 2, 26 Apr 2012).

“The reports are good. Overall, reports are very informative, detailed, and comprehensive. They do function satisfactorily.” (Interviewee 6, 29 May 2012).

“The current financial reports are good.” (Interviewee 5, 22 May 2012).

“I am satisfied with the reports as they are. In my opinion the reports are already pretty good.” (Interviewee 3, 30 Apr 2012).

Nevertheless, observing the data, a discrepancy appeared between the reports at headquarters level compared to the reports at regional level. Despite the overall satisfaction, it was declared that the reports at regional level are yet to be enhanced.

“The current financial reports are good. The reports are needed to be processed further from the Regional Office Manager...” (Interviewee 5, 22 May 2012).

The importance of developing regional reports concerned especially the timing issue. Various respondents highlighted the inconvenient fact that, the receiving of specific reports does not meet their need for the important information included in the reports.

“In the region, upon January-February the trade centres’ receive the first reports only by March. They would like to receive them earlier because they do not know where they stand throughout the period of January – February.” (Interviewee 2, 26 Apr 2012).

“The revenues report is the most important for me because it states our actual situation with the projects, but I receive it far sporadically.” (Interviewee 1, 18 Apr 2012).

Lastly, a few comments arose in relation to the reports taken from the software VIP. The discontent of the interviewees related especially to the accessibility of the reports through the software. In fact, in terms of access, the majority of the interviewees deemed that the VIP programme provided the access to a limited number of reports.

“...the fact that we cannot have figures up to date, especially around the end of the year, is causing major problems.” (Interviewee 1, 18 Apr 2012).

“...the reports we take ourselves from VIP are not adequate and functional. Additionally, we still needed to be clarified and understood which report can be taken. In VIP there are many various reports most probably very useful for the management and finance department, but not as functional from trade centre perspective.” (Interviewee 4, 4 May 2012).

#### **4.2.2 Advantages of the reports 2011**

Upon an accurate analysis of the feedbacks collected from the interviewees, the main advantages of the reports related to: comprehensiveness, conciseness, and common understanding.



The majority of the respondents recognised that the reports have been greatly enhanced lately. According to most of the comments, the reports are perceived to be exceptionally informative and at the same time very concise. The aspects mentioned above were the main characteristics of the reports pointed out as advantages.

“The advantages of the reports are that they are satisfactory and concise.”  
(Interviewee 3, 30 Apr 2012).

“...the monthly reports received from Tuukka Tolonen are significantly more informative now.” (Interviewee 4, 4 May 2012).

The comprehensiveness and conciseness of the reports led to a common understanding of the financial data and of the positioning of Finpro by every user.

“It is absolutely an advantage the fact that the reports provided at all level...a very useful and comprehensive pictures of the current situation.” (Interviewee 5, 22 May 2012).

“...we get a common understanding upon where do we stand financially.” (Interviewee 2, 26 Apr 2012).

#### **4.2.3 Disadvantages of the reports 2011**

As for the disadvantages which were highlighted by the respondents, the main focus concerned the fact that the financial reports which did not provide accounting data based on actual figures, also called cash basis.

The unavailability of financial reports cash basis was mentioned as a disadvantage. In relation to reports showing actual figures, even more disadvantages were listed concerning the reports taken from the software VIP.

“I would appreciate to receive expenses per trade centres; we can only see them at regional level.” (Interviewee 6, 29 May 2012).

“...we are not able to access the reports from VIP...” (Interviewee 2, 26 Apr 2012).

“The accessibility of comprehensive reports just-in-time it is necessary for the constant follow-up of the situation, this is a disadvantage.” (Interviewee 1, 18 Apr 2012).

“One of the disadvantaged concerns VIP. In fact, VIP does not provide an up-to-date snapshot of the current situation.”

#### **4.2.4 Suggestions for improvements and changes**

The interviewees indicated several valuable suggestions for improvements. What follows is a summary of the main propositions which were collected through the interviews.

The first suggestion for improvement relate to forecasting. It was advised to utilise the actual figures for a more precise forecasting and projections of the figures, especially closed to the near-end fiscal year.

“I believe it would be beneficial to analyse the actual figures, and based on those make forecasting and projections for the end of the year.” (Interviewee 3, 30 Apr 2012).

Several were the wishes for changes and enhancements related to the software VIP and the reports, cash basis, which can be taken from it. Developments of the VIP software were highly recommended by the interviewees.

Furthermore, the necessity of reports showing the financial situation based on actual figures appeared to be the utmost requirement and improvement stressed by the majority of the respondents.

“There should be some further thinking about VIP and the possibilities for enhancements.” (Interviewee 5, 22 May 2012).

“I could do the older stock reporting more frequently, for the regional reporting.”  
(Interviewee 2, 26 Apr 2012).

“...the report should show all the invoices which are still open. I feel that I cannot see some invoicing (e.g. trade centres), I am not sure what the reason behind is, but the fact is that I do not see all the companies which did not pay yet, some of them are not in the list anymore.” (Interviewee 4, 4 May 2012).

Lastly, the additional element mentioned as implementing point concerned the delivery time of the reports. In fact, it emerged the receiving reports with a better timing could have a significant impact on the open invoices. In a few cases, some interviewee deemed that, upon the prompt receiving the reports, an immediate action toward insolvent customers could have been taken, benefitting the outcome of the whole organisation.

“The due reports: the report in which it is possible to screen the companies which did not pay yet. It would be beneficial and needed to receive this report earlier and quicker so that we take immediate action and contact the insolvent companies.” (Interviewee 4, 4 May 2012).

“The work-in-progress report is done only once a month. During the critical months as November, December, and before summer holidays, it should be done at least twice a month. In fact, if corrections are made they are shown only the following month.”  
(Interviewee 4, 4 May 2012).

## 5 Discussion

The qualitative data collected and analysed in this study are of great value and it suggestible the commissioning party to utilise them as a source for future enhancements. Qualitative data are considered the most valuable data, in comparison with quantitative data, because they provide an insight understanding and deeper knowledge of the topic investigated.

The validity of the data collected was ensured. During the design phase, the questionnaire was reviewed and subjected to a test drive several times. During the collection of the data, via telephone interviews, any problems occurred. The sample of interviewees was wide and sundry to guarantee a solid ground of data. The possibility for any variance to occur and to undermine the validity of the data collected was accurately investigated and avoided. The validity, as elucidated in the others chapters, is one of the main concerns relating to research, especially for qualitative studies. Foreseeing and avoiding any possible factors that may threaten the validity of a research is the primary responsibility of every good researcher.

The purpose and objectives of the research were achieved. The results obtained from the data analysis were deemed beneficial for the commissioning party which received a sound in-depth knowledge on the budgeting and reporting process. The outcome obtained by the commissioning party is to be exploited in future implementations.

My personal development was vast. My personal goals prior the beginning of the study were to acquire more knowledge related to my specialisation studies, financial management. By the end of the research, my goals were satisfactorily reached. I experienced budgeting and reporting on real life case, hence I increased my knowledge concerning managerial and financial accounting. I learned that a scientific field as managerial accounting is related and influenced by social sciences as: psychology, communication studies and sociology. Managers shall benefit from the outcomes of this study. In fact, the result of this empirical research proved that even budgeting is closely interconnected with the degree of commitment and involvement of employees.

## 5.1 Budgeting

The financial budgeting within the region underpinned an even stronger participative approach than what previously utilised in Finpro. This empirical research proved that from trade centres to regional offices, every manager involved in the budgeting process resulted more empowered and more involved, leading to a considerable degree of commitment.

The increased degree of accountability of the regional management during the budgeting period and for the budgeted figures increased likewise the level of accountability of the managers within the region. In fact, through a more participative approach every manager was expected to justify the figures to the superiors, to the Regional Office Manager, and to the Head of Region. A regional budgeting process as such should hamper the constitutions of slacks within the budgets. Consequentially, a budgeting approach at regional level appeared to be more tamper-proof, as claimed during the collection of the interviews by some respondent.

From the data analysis it was observed that the role of the Finance / Controlling team within the regional approach was slightly unclear. In fact, it was proved the existence of a discrepancy of opinions between the points of views of managers covering different managerial positions and levels. Therefore, the role that the Finance team plays within the regional framework should be clearly explained to avoid biases, especially biases arising at lower management levels.

The communication between the managers during the budgeting period played a significant role. Through the participative regional framework the communication, and especially the understanding, was remarkably improved. Nonetheless, enhancements could be still done, and should be applied. In fact, as resulted from the data analysis, prior the enforcement of the budgeting regional approach there was some communication gap, as some managers were not informed of the upcoming changes.

At every managerial level, the direct superiors are liable and responsible for communicating the upcoming changes and implementations within the organisation. Whenever a subordinate perceived to have not received sufficient instructions, it might be an indication of miscommunication and communication inefficacy. The likelihood of the existing of communication inefficacy, resulting from unprepared superiors or from poor guidelines, is a factor which is ought to be investigated further. Especially, when it comes to budgeting, it is of utmost importance that managers are aware and comprehend the means of the changes and the instructions. Failing to do so might cause severe biases and slacks.

The risk of a participative budget in a multinational company across regions and trade centres to be time consuming is considerable. The data analysis revealed that the time consumption was perceived as a negative effect of the participative approach within the regional framework. Nonetheless, this research proved that, a highly structured framework and the prompt delivery of proficient guidelines are the factors which, if not completely eluding, diminish such a side effect.

The local environments differ greatly from the environment of the headquarters. According to the comments of the respondents, it was claimed that differences between the two environments are not taken into adequate consideration, which led to a palpable distress and which might cause further biases. Additionally, it was deemed that at Finance / Controlling level local differences such as, legislation and miscellaneous factors (maternity leaves, rental fees changes, travel expenses), were not considered when setting the framework and the targets. Local differences might seriously jeopardize the figures and cause severe consequences in terms of outcome and discontent. Finpro is a service organisation and therefore employees' salaries account for the biggest part of the costs. It is fundamental for the company to pay extra attention to the local legislation.

## **5.2 Reports**

The overall analysis showed a general satisfaction over the performance reports prepared and provided by the Finance / Controlling unit. The reports were deemed

concise, informative, comprehensive, and lastly, delivered with a good timing. Nonetheless, some room for additional developments and improvements remains.

More discontent was displayed when taking into considerations the reports taken from the software VIP. However, as the VIP reports were not the focus of this work, they were not investigated further.

From the data analysis it would not be incorrect to assert that respondents appeared to be slightly confused when it came to performance reports delivered by the Finance / Controlling team and the reports taken from VIP. Especially, a general state of confusion was observed when considering reports prepared on accrual basis accounting and reports based on cash accounting.

## 6 Recommendations and suggestions

The recommendations deriving from this study are summarised as: keeping the financial planning with a regional framework, enhancing the clearness of the communication between different levels of management, ensuring the evaluation of peculiar factors concerning local environments, providing prompt schedules and guidelines, carrying out continuous development of the performance reports, and lastly performing an yearly qualitative research upon the termination of the budgeting period.

Overall, it is recommendable to keep the financial planning at regional level. The regional framework resulted to be the most fruitful, reliable, and efficient budgeting process implemented by Finpro. Certainly, additional developments are needed to improve the budgeting at regional level.

The communication between managers within the regions should be refined. It is of foremost importance for the managers in different managerial positions to be aware of the upcoming changes, and to comprehend them in every aspect. Failing to do so might cause discontent alongside with deceiving figures, especially in times of financial crises and layouts. In such a critical period, as economic crises and redundancy, an efficient or inefficient communication determines the disposition of the employees and their involvement, which, in last instance, determines the level of commitment. Hence, it is advisable that the purpose and the benefits of the budgeting within the regional framework to be clarified. Additionally, it is suggestible the preparation and the delivery of even clearer guidelines, which are the essential component complementing the efficacy of the communication.

Local environments are probably the second utmost important element to be scrutinised after the communication. It should be acknowledged that local differences have a great impact on the preparation of the budgets, in terms of time and figures. To avoid deceiving figures and to overcome local barriers, it would be beneficial upon the setting of the framework to closely cooperate with the Regional Office Managers.



Additionally, the local environments have an important impact, beside on preparation of budgets, on the performance reports, and on the performance of foreign operations.

Hence, in matters relating to international accounting, local environments might have severe consequences if not taken into account adequately.

Ideally, representatives of the Finance / Controlling department shall visit trade centres across regions, to gain knowledge of the local environments and of the needs of the trade centres. However, as the costs of such an intervention would be conspicuous, the Regional Office Managers could be responsible for collecting and detecting the most significant local factors to be taken into consideration when setting the framework.

The schedules concerning the delivery of the guidelines and the timeline of the budgeting period are to be verified and reset. The instructions, the general ones and the more specified for the regional management, and the schedules are to be provided to the regional management reasonably in advance, to enable a proper familiarisation and readiness of the managers.

The excel templates utilised for the preparation of the budgets are deemed to be fairly user-friendly. However, during the investigation it emerged that the need for additional developments subsists. Hence, it is recommended to investigate the issue further.

When considering the financial reports, they have been enhanced and they are under continuous development. Yet, several were the requests for more user-friendly reports at trade centre level. Furthermore, it should be covered the gap between the general financial reports delivered by the Finance / Controlling unit, and the regional financial reports; the latter are especially important and required by the trade centres. It is suggestible a cooperation with the regional management team to study and to comprehend the needs of the regions and of the trade centres. Such collaboration would lead to the creation of financial reports assuring that those needs are fulfilled. Additionally, the Finance / Controlling team might wish to consider visiting the trade

centres to investigate and monitor the reliability of the budgets, as well as the utilisation of the reports.

Focusing on the financial reports, it should be explained to the regional management the difference existing between financial reports prepared on accrual basis and the cash basis accounting. In fact, explaining the difference between accrual basis accounting and cash basis accounting would clarify, to the main users of the reports, the difference between the financial reports delivered by the Finance / Controlling unit, and the reports taken by the accounting software VIP.

Lastly, it would be recommendable to run a similar research to the one conducted and presented in this work upon the termination of the upcoming budgeting period. To carry out a similar investigation after the budgeting period 2012 would be exceptionally beneficial for the organisation. In fact, the feedbacks collected would provide particularly valuable suggestions for future implementations.

## 7 Conclusion

The implementation of a participative budgeting practise in an organisation is likely to produce more benefits than disadvantages. Especially, if the organisation is trading and operating internationally, a multinational organisation, then a participative budgeting is recommendable.

Participative budgeting implies empowering and giving more responsibility to managers covering various positions in the managerial scale. Empowering managers alongside with increasing their responsibility seems, according to this report, to produce positive effects under various aspects. Managers, which are made more accountable and more empowered, consequentially are more satisfied, more involved and greatly committed. A shift of responsibility from the headquarters of an organisation to lower managerial levels might be perceived as a hazard. Concerns of that sort are undeniable and more than real. However, the keys to avoid hazards of any kind reside in a few factors: framework, guidelines, and communication.

How it was proved by the empirical research presented in this work, the win-win points of the participative budging process enhanced at Finpro are: strict framework, clear and concise guidelines, and an efficient communication. It appeared that even a scientific topic as budgeting is closely related to the motivation, and to the communication, which are elements to be taken under continuous scrutiny. Hence, for a multinational organisation a participative budgeting with a regional empowerment might be the solution to overcome deceptive financial figures. Issues related the budgets shall automatically be reflected into the performance reports. Overall, deceptive financial figures might have a dangerous impact on the performance, and even on the competitiveness of an organisation in the long term.

The decision taken by Finpro to enhance a new budgeting approach, empowering and making more liable managers, proved to be successful. The positive results of such an action are visible after the first year of implementation. Nonetheless, performing regular qualitative investigations similar to the one presented in this work shall be the

key to refine the process over years. Qualitative research is more time consuming compared to quantitative research, yet the data obtained provide more valuable meaning and in-depth knowledge.

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# Attachments

## Attachment 1. Interview structure

Company .....Finpro Ry.....

Location .....

Name .....

Position .....

Dear interviewee,

the purpose of the following questionnaire is to acquire a thorough feedback concerning the new regional framework of the budgeting 2011. The questionnaire constructively complements the ECHO survey you previously completed. The feedbacks collected will be utilized for further implementations of the budgeting process.

We would like to thank you for the cooperation.

### Budgeting 2011

#### The framework

1. What is your opinion about this year budgeting process within the regional framework compared to the previous year?
2. How did you experience preparing this year budget more at regional level?
3. What do you think about the income and costs targets which were set this year?
4. Please list the factors you perceive to be the advantages and disadvantages of this year budgeting:

#### The support

5. What do you think about the provided instructions for this is budgeting?
6. How did you experience the support received from Finance, Regional Office Manager and your superior throughout the budgeting process?

#### The commitment

7. What is your opinion about the information you received, from Finance / Controlling, related to implementation of the new budgeting process at regional level?
8. How would you describe your involvement / motivation in working within the financial frame at regional level compared to your involvement / motivation in the previous year?
9. Please mention your suggestions for improvements and /or changes:

### Reports 2011

1. What is your opinion concerning to the current financial reports?
2. What are the advantages and disadvantages of the current financial reports?
3. Please mention your suggestions for improvements and / or changes related to the financial reports: