



Budgeting plan by making the Balanced Scorecard for Virvatuli-
Valaisimet outlet in Kemi

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ABSTRACT

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<p>This research is focused on the field of budgeting planning and the Balanced Scorecard. The objective of this research is to evaluate the efficiency of using budget for making investment decisions.</p> <p>In this thesis work, qualitative research method is applied. In agreement with research questions, explanatory research methodology is suitable for this thesis because it links theoretical strategy planning to the empirical case company analysis. Hence, the data collection is mainly conducted by making interviews and analyzing the case company's documentation. In addition, secondary data such as scientific journals and books by established and expert authors discussing the budget and its construction as well as the Balanced Scorecard are used.</p> <p>This outcome of this research is an effective budgeting plan for Virvatuli-Valaisimet outlet in Kemi. The budgeting plan is constructed in the form of the Balance Scorecard and the strategy map as well as the Master Budget model.</p> <p>The Balanced Scorecard and the Master Budget model can be used by the case company for building strategy on the measurement performance system. It is suggested that future research be carried out to apply strategy map for implementing strategic plan in the Balanced Scorecard.</p>	
Keywords: capital budgeting, strategic plan, Master Budget, Balanced Scorecard, strategy map.	

FIGURES AND TABLES

List of figures

Figure 1. Interconnection of various components of a Master Budget

Figure 2. The Balance Scorecard as a Strategic Framework for Action

Figure 3. The Balance Scorecard provides a Framework to translate a Strategy into operational terms

Figure 4. Measuring Strategic Financial Themes

Figure 5. The Customer Perspective – Core Measures

Figure 6. The Internal-Business-Process Perspective- The Generic Value-Chain Model

List of tables

Table 1. Budgeted profit and loss account for the year 20XX

Table 2. Budgeted balance sheet as on 31 December 20XX

Table 3. SWOT and TOWS analyses for Kemi store

Table 4. Balanced Scorecard for Kemi store

CONTENTS

ABSTRACT.....	2
1 INTRODUCTION	6
1.1 Starting point.....	6
1.2 Informants, data and methodology	6
1.3 Case company profile	7
1.4 Objectives and research questions	8
1.5 Structure of thesis	9
2 THEORETICAL KNOWLEDGE OF BUDGETS	10
2.1 Conception of budgets	10
2.2 Component of budgets	10
2.2.1 Sales budget	12
2.2.2 Production budget	12
2.2.3 Selling and administration budget	13
2.2.4 Cash budget.....	13
2.2.5 Budgeted income statement and budgeted balance sheet	14
2.3 Zero-based budgeting.....	14
2.4 Practical budget system in Virvatuli-Valaisimet Kemi store.....	15
3 BALANCED SCORECARD.....	18
3.1 Theoretical concept of BSC	18
3.1.1 Financial perspective	20
3.1.2 Customer perspective.....	22
3.1.3 Internal Business Process perspective	22
3.1.4 Learning and growth.....	24
3.2 Strategy map	24
4 RESEARCH METHODOLOGY.....	25
4.1 Single case study	25
4.2 Research techniques	26
4.3 Collection of data	27
4.4 Limitations	28
5 BUILDING BALANCED SCORECARD for VIRVATULLI-KEMI OUTLET	29
5.1 Mission and Vision	29

5.2 SWOT and TOWS analyses.....	29
5.3 Building the BSC	33
6 CONCLUSIONS.....	37
6.1 Discussion	37
6.2 Conclusions	38
6.3 Suggestion for future research.....	39
REFERENCES	40
APPENDICES	42

1 INTRODUCTION

The starting point of this research is discussed initially, followed by discussions of the informants, data and methodology. The case company profile is also presented as well as the objectives and research questions. The introduction chapter is concluded by a brief description of the structure of the thesis.

1.1 Starting point

By knowledge gained from my university study, I understand how budget plays an important role in strategic planning. In order to maintain and control cash-flow fluently, a budgeting strategy should be considered as the key factor of a company's operation. In fact, budgeting is one of the most important elements that every manager will consider as a priority for starting-up or opening new branches.

Hence, the topic of the research is addressed by describing and explaining the steps of a budgeting plan to help the management of Virvatuli-Valaisimet Oy in the future when they want to widen their business. The research is to add to understanding the importance of making decisions concerning budgeting.

1.2 Informants, data and methodology

In this research, I collected data from both primary and secondary sources. According to Collis and Hussey (2009, 73) primary data is taken from one original source whilst the second data is taken from available sources. The primary data was collected by the use of making interviews with the two members of Virvatuli. The first interview was conducted with Virvatuli-Valaisimet Oy's Entrepreneur Mrs. Paula Aiko-Tallgren. The second interview was conducted with the Managing Director (hereinafter MD), and the store manager of Virvatuli Kemi outlet, Mr. Erkki Tallgren who is Mrs. Tallgren's husband. Besides, questions were asked via email from Mrs. Aikio-Tallgren was used to collect data. The secondary data is data that "is not collected with the researcher's purpose and objectives in mind" (Greener 2008, 79). The secondary data for this research was cited from several books, journals and non-printed sources discussing budgets and the Balanced Scorecard. Apart from that, data was collected from the company documents provided by Mrs. Aiko-Tallgren. Basically, the company's

catalogues were printed in the Finnish language. Hence I asked Miss Ida Pajari to translate those documents into English. After that, the supervisor of this research, Dr. Esa Jauhola helped me verify the correctness of the contents of the translations.

1.3 Case company profile

This research was done by helping from the case Virvatuli-Valaisimet outlet store in Kemi. This shop is one of two outlets of Virvatuli-Valaisimet Oy in Lapland, Finland; the other one is located in Tornio. Virvatuli-Valaisimet is a limited company doing business in the lighting and electric industry, concretely in versatile interior lighting. The main office is situated in Tornio. To find out the information concerning the case company, an interview of the owner, i.e. Mrs. Paula Aikio-Tallgren was conducted in 2012 in addition to collecting information from the company's website.

The company was established in the 1970s by Paula Aikio-Tallgren's parents in Tornio. In the beginning, the company operated as a retailer by selling several kinds of classic lamps such as hand-crafted interior lamps and all products were made by a domestic manufacturer. There was a generation change when Mrs. Aikio-Tallgren decided to repurchase her parents shop in 1994, after which the company was registered with the name Virvatuli. (Aiko-Tallgren 2012.) Virvatuli means the Northern Lights in swamp and low-lying land (Virvatuli 2013). Later, Virvatuli-Valaisimet Oy was registered as the official name of the company. Initially, the objective of Virvatuli was to focus on importing products, mainly from Italy, Spain and especially the electric productions from the Swedish markets. Once, Mrs. Aikio-Tallgren met an agent in Norway, the agent introduced Mrs. Aikio-Tallgren to one Chinese company that the case company produces lighting lamps. At the beginning of the 2000s, Virvatuli imported products from China. At this moment, the entire product ranges of Virvatuli are imported from China. Before these products are allowed to be exported to Finland, they must satisfy the standard of the Certification of Electro-technical Equipment. However, according to Mrs Aiko-Tallgren, Virvatuli sometimes has received bad quality products. To deal with circumstance of depending on the exclusive supplier, Mrs. Aikio-Tallgren must find other suppliers. She found at least one lighting firm in Hong Kong. The process of transporting goods from China to Finland is executed by WACO logistics Finland, one of the cooperation partners of Virvatuli. Besides,

Virvatuli also cooperates with several wholesalers in Finland such as K-Rauta, Prisma and Anttila. By opening the new store in Kemi in 2012, Virvatuli- Valaisimet Oy has seven employees in total and one sales manager. Those employees are hired flexibly as one-season workers. (Aikio-Tallgren 2012.)

In the following chapter, the case company will be referred to as Virvatuli-Valaisimet outlet in Kemi. Therefore, the research is conducted on the basis of the business of Kemi store.

1.4 Objectives and research questions

The main objective of my work is to evaluate the effect of the budgeting plan on company's operations, using the Balance Scorecard (hereinafter BSC) as the tool in translating strategy to action for the case company Virvatuli-Valaisimet Oy Kemi.

In accordance with the research objectives, the following questions have been developed:

a. What is the basic system of a budget?

The first research question is one of my two main research questions with an aim to define the concept of budget. To answer this question, the basic concepts are discussed in the theoretical chapter, i.e. chapter 2. However, the first research question is theoretical in nature. Thus, answering the sub-research question below enables to find out the practical answer. The sub-research question is as follows:

How does Kemi store apply a budget system for the company's operation?

This sub-research question will be answered in the "Practical budget system in Virvatuli-Valaisimet Kemi store" part of theoretical knowledge of budget in chapter 2. The examination of this question will help Virvatuli-Valaisimet Oy understand the importance of budget since they are able to make their budget plan effectively.

b. How does the BSC support the strategy in the case of Kemi store?

Since the introduction of the concept of BSC by Kaplan and Norton (1996), the concept has been found useful for companies' strategic planning. To answer this question, a BSC is built in chapter 5 on the basis of the information collected from Mr. Tallgren from Virvatuli-Valaisimet Oy. Therefore, the BSC indicates the impact on the process of translating strategy to action (Kaplan & Norton 1996, 24). Apart from this, supporting answering this question is the theoretical knowledge of the BSC in chapter 3. Moreover, the analysis of the interviews also helps answer my second research question.

1.5 Structure of thesis

The theoretical foundation for this work is built around how budget is managed during the strategic planning process of firms or companies. This thesis is divided into six chapters.

Chapter 2 starts with the discussion of the theoretical knowledge of budget and its components and ends with zero-based budgeting. Chapter 3 is devoted to a concrete introduction into Balanced Scorecard and strategy map. Thereby, four perspectives of the BSC are described in this chapter. In chapter 4, the research methodology is presented to describe in detail the way how I collected and analyzed the data. Chapter 5 continues with building a strategy map for the case company on the basis of the information collected for this study. Finally, chapter 6 presents the discussions and conclusions of the research.

2 THEORETICAL KNOWLEDGE OF BUDGETS

The theoretical knowledge of budgets is in focus here. Concretely, all compositions that create a budget are explained. Besides, zero-based budgeting is also shortly touched upon in this chapter.

2.1 Conception of budgets

Atrill and McLaney (2012) define the concept of budget as follows: “a budget is a business plan for the short term-typically one year-and is expressed mainly in financial terms”. According to two authors, a budget plays an important role in changing from a strategic plan to an action for the forthcoming time of a financial period. The difference of the actual outcome and the budget can help managers assess the efficiency of the company’s plan. Budgets normally are used to deal with several issues such as, cash receipt and payment, sales volume and revenues, prices and wages. (Atrill & Mc Laney 2012, 188-189.) In other words, a budget is an effort to predict accurately how much money will be expended throughout organization.

Budgets play an important role in business management. Budgets force managers to prepare for all the changes of the business environment. Basically, the function of budgets includes planning, coordinating, communicating, motivating, controlling and evaluating (Atril & McLaney 2012, 196).

According to the dictionary of accounting and finance, “budgeting is defined as the process of preparing a budget” (Brockington 1993, 36). Besides, Drury (2004, 590) perceives budgeting as short-term planning. Short-term planning deals with all available resources of the firm every day.

2.2 Component of budgets

Walther and Skousen (2009, 20) emphasize that it is necessary and important for managers to create logically a Master Budget for the whole organization. According to the dictionary of accounting and finance, a Master Budget is “the overall plan for a business’s financial activities to which its sectional plans must relate” (Brockington 1993, 145). A Master Budget that includes interconnections of various components is

illustrated in the figure below in the format provided by Brewer, Garrison and Noreen (2007, 290-291).

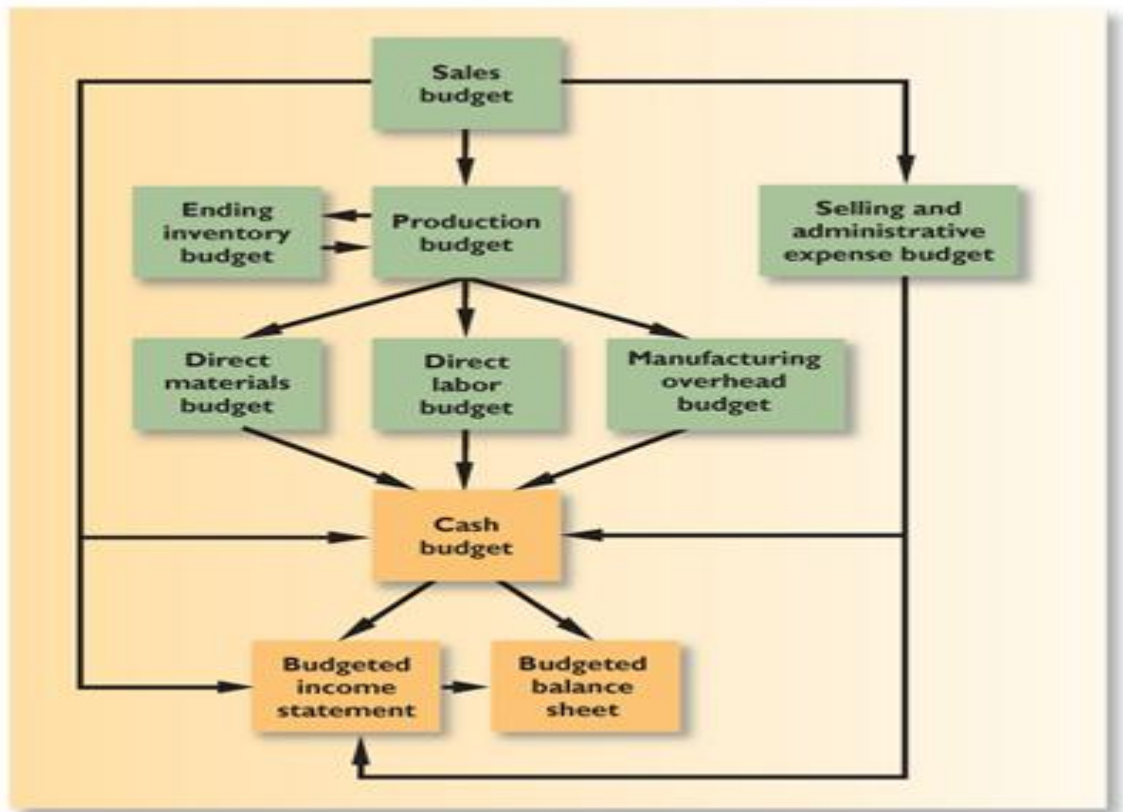


Figure 1: Interconnection of various components of a Master Budget (Brewer et al. 2007, 290-291)

As can be seen, figure 1 is divided into two parts. The first part of figure 1 includes all green square boxes while the second part of figure 1 includes the rest and all the operating budgets are connected to the cash budget. According to the arrows in figure 1, the cash budget only is affected by the budgets in the green boxes. Starting with the first part of figure 1, estimating the sales budget is usually top priority. The level of sales decides on both the production budget and the selling and administrative expense budget. Besides, the situation of the ending inventories also determines the required production levels. Then the production will order the requirement of the direct materials, the direct labour and the manufacturing budget. The second part of figure 1 presents the measurement of the budgeting with budgeted income statement and

budgeted balance sheet. The budgeted income statement is generalized by the selling and administrative expense, sales and cash budgets.

2.2.1 Sales budget

Drury describes a sales budget as the foundation of all other budgets. It predicts in advance the amount of goods to be produced, the labour equipment and capital required and the amount of various selling and administrative and financial expenses needed. The sales budget is estimated based on the patterns of product, the units of selling product and the intended selling price. (Drury 2006, 434.)

In other words, the sales budget is affected by “previous sales patterns, current and expected economic conditions, activities of competitors, and so on”. The sales budget also forecasts the amount of sales by cash, credit and others transactions. (Walther & Skousen 2009, 21.)

2.2.2 Production budget

Recent research by Walther and Skousen (2009, 23) shows that the production budget deals with the number of units sold, desire ending finished goods inventory and the beginning finished goods inventory. Drury (2006, 438) points out that the production manager has the responsibility for ensuring that the production meets the sales requirement properly and each department should analyse the total production monthly. Fundamentally, the production budget includes three different budgets, i.e. the materials budget, the direct labour budget and the manufactory overhead budget in accordance with figure 1.

The materials budget according to Drury is the method to estimate the raw materials volume that would be used to meet production budget for the budget period. In addition, Drury maintains that the materials budget has the purpose in purchasing the raw materials with intended selling price at the right time. (Drury 2006, 438.) Walther and Skousen (2009, 25) argue that the materials budget can build an essential framework for cash payment planning in terms of materials issue.

Walther and Skousen define the direct labour budget as the framework to determine the needed staff and the total direct labour costs. Therefore, the total direct labour cost is the result of a calculation with the total direct labour hour multiply to the budgeted wage rate per hour (Walther& Skousen2009, 26.)

It can be seen from figure 1 that the factory overhead budget is dependent on the labour budget and the production budget. Drury (2006, 440) states that the production department managers must analyse the overhead budget based on both controllable and non-controllable object of cost control. Apparently, the factory overhead budget is more complicated than the direct labour or the direct materials because it relates to variable costs.

2.2.3 Selling and administration budget

Despite the fact that the selling and administration (hereinafter SG & A) budgets should be done separately however managers can plan both budgets together in order to simplify the process of budgeting (Drury 2006, 440). Additionally, Walther and Skousen (2009, 28) maintain that the cash budget and the budgeted financial statement are developed as a result from the SG & A budget with concluding variables and fixed items.

It is normally in the big company that separate budgets are prepared by typical managers in the particular areas. The sales manager is in charge of the selling budget while the distribution manager has responsibility for the distribution expenses and the administration budget is managed by the chief administrative officer. (Drury 2004, 607.) Conversely, managers in small organization will have duty to all budgets.

2.2.4 Cash budget

There is no doubt that cash is the most important factor that influences the success of business. In fact, most of business activities are related to cash eventually. A small medium enterprise such as a retailer probably finds the full-scale budgeting not necessary to prepare but they must prepare a cash budget at least. (Atril & McLaney 2012, 206.)

Walther and Skousen (2009, 29) emphasize that companies or firms can be bankrupted sooner or later if there is not enough cash to deal with delaying receivables, capital expenditure or other operations. As can be seen from figure 1, the cash budget is the link to connect all other budgets together. Drury points out that the cash budget needed to deal with uncertain things occur when firms make budgeting plan such as missing revenue in cash balances. Alternatively, “obtaining maximum available cash and interest income is the main object of cash budget”. (Drury 2006, 443.) In the case of the Kemi store, a cash budget is a list of expected inflows and outflows during a regular time. By emphasising on cash income and cash expenses, a cash budget is absolutely useful for short-term plans. Besides, the crucial benefit of cash budgets comes from adjusting the actual cash flow to the estimated cash flow.

2.2.5 Budgeted income statement and budgeted balance sheet

Budgeted income statement and budgeted balance sheet are the final steps to help firms measure the planned performance in a particular period. Hence, the accountant will conduct the Master Budget by summarising all individual budgets. Following the summarising phase, the Master Budget is submitted to the board of directors with several financial ratios such as return on capital employed (hereinafter ROCE), and working capital. Consequently the board of directors will decide the plan for the forth coming period based on the acceptable ratios above. (Drury 2006, 444.)

Besides, with the budgeted balance sheet, managers are able to have an effective view of the financial situation of the organization. A balance sheet comprises total assets, liabilities and equity. (Mongiello 2009, 14.)

2.3 Zero-based budgeting

There are several authors who provide definitions for the concept of Zero-Based Budgeting (hereinafter ZBB). Walther and Skousen (2009, 17) define “ZBB or the budget starts at zero is the alternative from incremental budgeting”. This means managers have to explain all the costs right from the beginning. The concept of “incremental budgeting” is defined by Atrill and McLaney (2012, 203) as “it is an approach that currently year budgeting is planned according to the previous period data with a number of changes or adjustment”. In other words, ZBB is established to refresh

the old budgeting process by adjusting the revenue and expense history of the previous period based on inflation and increasing salary (Mc Milan 2010, 183).

Drury assumes that ZBB is more suitable for discretionary costs and support activities such as advertising and training costs than production and service costs. However, this ZBB need a big amount of costs and time-consuming. Thus, managers tend to apply ZBB to the most concerned area instead of the whole organization. (Drury 2004, 620-621.)

2.4 Practical budget system in Virvatuli-Valaisimet Kemi store

Despite the fact that Virvatuli-Valaisimet Oy is one wholesaler, the Kemi store of Virvatuli is operating as a retailer. Therefore, the budgeting plan for retail would be started by a cash flow statement. "The cash flow statement is where we track coming into and going out of business". Generally, the transaction is done by cash, credit card or other payments. (MTD Training 2010, 36.) "A retail budget should coordinate the rhythm of paying for inventory purchases and overhead costs, such as rent, as well as other essential expenditures, such as payroll and taxes, and balancing these payments with incoming revenue". The next step of budgeting plan for the Kemi store is the seasonal sales forecast for category because sales always change in accordance with seasons such as the Christmas season and the Easter season. To more detailed, the store can classify sales forecast by month. "The surplus or the deficit for a particular month will be carried over to the revenue section of the following month." The last step of budgeting plan involves cash flow projection in review. This review is supported by determining stock needed, inventory loss to ensure that "the business is expected to come up short of being able to meet its expenses." (Gartenstein 2013, access 3 December 2013.)

While visiting Virvatuli, the owner guided me to see the company's infrastructure such as the office, the store as well as the warehouse. During the tour of the premises I learnt that Viratuli does not have the manufacturing functions because the goods are imported. Therefore, compared to the theoretical Master Budget above, the practical

budget of Virvatuli excludes “direct materials” and “manufacturing overhead” parts. Thus, the Master Budget is prepared as is illustrated in the following tables 1 and 2.

Table 1. Budgeted profit and loss account for the year 20X3

Currency		Euro	Euro
Estimated unit sales			X
Purchases		X	
Direct labour		X	
Add opening stock of finished goods (from opening balance sheet)	X		
Less closing stock of finished goods	<u>X</u>		
Sub total		(X)	
Cost of sales			<u>X</u>
Gross profit			X
Selling and administrative expenses			<u>X</u>
Budgeted operating profit for the year before interest and taxes			<u>X</u>
Interest			X
Taxes			X
Total budgeted operating profit for the year			<u>X</u>

It is noted that the selling and administrative in this case is assessed by car expenses, advertising, stationery and other miscellaneous issues. In fact, most of the items in the budgeted income statement are taken directly from another element of the Master Budget.

Table 2. Budgeted balance sheet as on 31 December 20X3

Currency		Euro	Euro
Fixed assets:			X
	Store and equipment	X	
	Less depreciation	<u>X</u>	<u>X</u>
			X
Current assets:			
	Finished stock	X	
	Debtors	X	
	Cash	<u>X</u>	
		X	
Current liabilities:			
	Creditors	<u>X</u>	<u>X</u>
			<u>X</u>
Profit and loss account		<u>X</u>	<u>X</u>

Table 2 indicates that the creditor is calculated as follows: the opening balance + the purchases – the cash. The 20X3 amounts are logically deduced from the detailed information of the Master Budget.

3 BALANCED SCORECARD

The Balanced Scorecard (hereinafter BSC) and the strategy map are expounded based on Kaplan and Norton's theory. The concept of BSC and its applicability in strategic planning for firms is a phenomenon since over fifteen years. In addition, the utilization of the BSC and strategy map is discussed and innovated by drawing from other researchers such as Atrill and McLaney (2012), Niven (2005) and the two inventors, Kaplan and Norton themselves.

3.1 Theoretical concept of BSC

One of the most efficient tools for company to assess financial or non-financial operation has been the BSC. The BSC is described primarily by Kaplan and Norton that the "BSC provides executives with "a comprehensive framework that translate a company's vision and strategy into a set cohesion of measurement". Today, as described by Kaplan and Norton, mission statement is largely applicable to companies to link fundamental values and beliefs to all members of an organization. (Kaplan & Norton 1996, 24-25.) Another opinion about the BSC which is written on the Financial Gazette 2003 emphasizes that the BSC is able to help companies by measuring, monitoring and communicating their strategic plans and goals in a way that everyone in the organization can understand clearly "their personal job related goal in order to align their goals to the organizational goals" (cited in Hatch & Lawson & DesRoches 2007, 25). Niven (2002 ,12) in turn classifies the BSC as three objects, i.e. measurement system, strategic management system and communication tool. Figure 2 illustrates the framework of the BSC as a strategy for action.

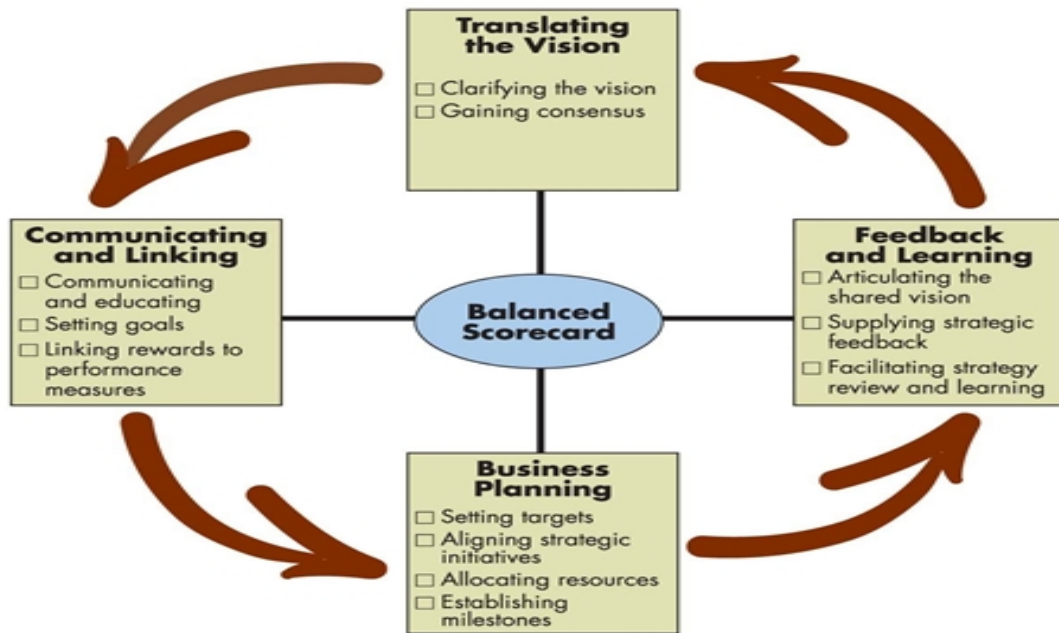


Figure 2. The Balanced Scorecard as a Strategic Framework for Action (Kaplan & Norton 1996, 11)

Commenting on the BSC, Salterio refers to BSC as a “significant teaching development in management accounting” (cited in Kaplan 2012, 539-545). As can be seen from figure 3 below, the BSC key performance indicators are split within four distinct perspectives, i.e. Financial, Customer, Internal Business Process, Learning and Growth. Each of them probably comprises its own point of view and accurate target.

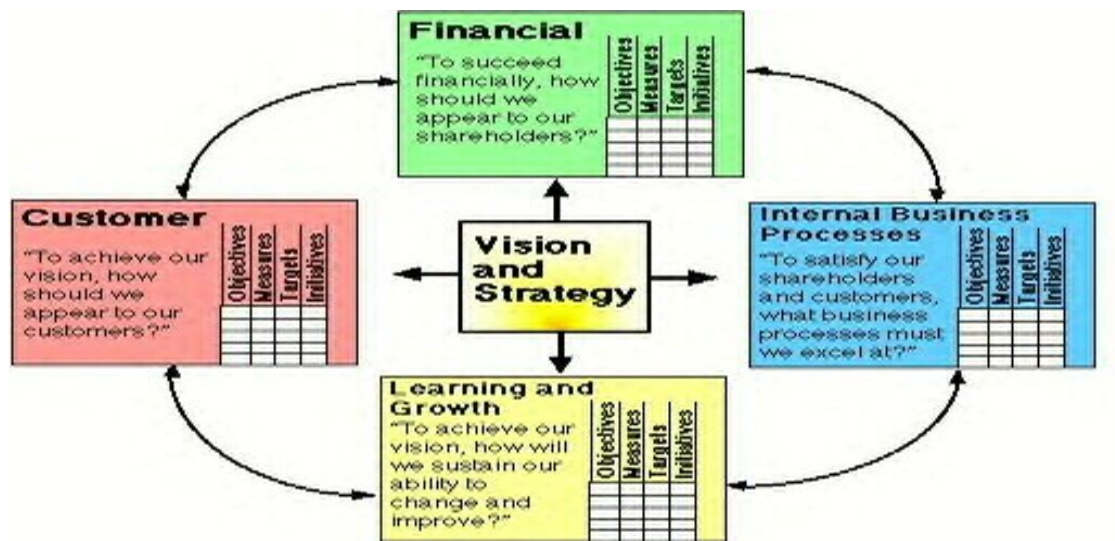


Figure 3. The Balance Scorecard provides a Framework to translate a Strategy into operational terms (Kaplan & Norton 1996, 9)

3.1.1 Financial perspective

As can be seen from figure 3, the financial perspective is the response to shareholders from the organization. Essentially, financial objectives are long term goals for a firm. Shareholders will appraise the financial perspective by the result of financial performance such as return on capital employed, economic value-added, operating profit margin and percentage sales revenue growth (Atrill & McLaney 2012, 354). According to Kaplan and Norton (1996, 51), unlike business's life cycle, financial objectives are divided into three stages, i.e. Growth, Sustain and Harvest. To control the business strategy, each of the three stages is accompanied with three financial themes as the picture below.

		Strategic Themes		
		Revenue Growth and Mix	Cost Reduction / Productivity Improvement	Asset Utilization
Business Unit Strategy	Growth	Sale growth rate by segment Percentage revenue from new product, services and customer	Revenue/Employee	Investment (percentage of sales) R&D (percentage of sales)
	Sustain	Share of targeted customers and accounts Cross –selling Percentage revenues from new applications Customer and product line profitability	Cost versus competitors Cost reduction rates Indirect expenses (percentage of sales)	Working capital ratios (cash-to-cash cycle) ROCE by key asset categories Asset utilization rates
	Harvest	Customer and product line profitability Percentage unprofitable customers	Unit costs (per unit of output, per transaction)	Payback Throughput

Figure 4. Measuring Strategic Financial Themes (Kaplan& Norton 1996, 52)

Typical financial objectives are to increase return on investment by 20% or to increase sales and operating income by 100% over next five years (Drury 2004, 1006). If organizations have an effective update on the strategy formulation and strategic issues, “the budgeting process should simply involve translating the first year of a multiyear, normally from 3 to 5 years, plan into an operational budget” (Kaplan & Norton 1996, 284).

3.1.2 Customer perspective

Kaplan and Norton explain the second perspective of the BSC: the customer perspective is composed of five core measures, i.e. retention, acquisition, satisfaction, profitability and market share. Therefore, the customer perspective can help companies “to identify and measure, explicitly, the value propositions they will deliver to targeted customers and market segments”. (Kaplan & Norton 1996, 63-68.)

Market Share	Reflects the proposition of business in a given market (in terms of number of customers, dollars spent or unit volume sold) that a business unit sells.
Customer Acquisition	Measures, in absolute or relative terms, the rate at which a business unit attracts or win new customers or business.
Customer Retention	Tracks, in absolute or relative terms, the rate at which a business retains or maintains ongoing relationships with its customers.
Customer Satisfaction	Assesses the satisfaction level of customers along specific performance criteria within the value proposition.
Customer Profitability	Measures the net profit of a customer, or a segment, after allowing for the unique expenses required to support that customer.

Figure 5. The Customer Perspective – Core Measures (Kaplan & Norton 1996, 68)

In the customer perspective, the five core measures in figure 5 are selected clearly for the targeted customers of the organization by managers. These measures are objected to determine the customer satisfaction and the new customer growth levels based on three classes of attributes. The first class of attributes include, i.e. time, quality and price of customer-based processes. The second class of attributes includes quality of purchasing experience and personal relationships. The last class of attributes mention in image and reputation to see how a firm is attractable by customers. (Kaplan & Norton 1996, 85.)

3.1.3 Internal Business Process perspective

When applying the internal business process perspective, managers are able to assess measures such as proportion of new products sell, distributed time for new products,

product cycle times and the ability to deal with customer complaints (Atril & McLaney 2012, 355). Kaplan and Norton generalise the third perspective of the BSC as a value chain model that companies can apply as a template for their internal-business-process perspective preparation. The value chain model comprises three main business stages, i.e. Innovation process, Operation process and Post sale service. (Kaplan & Norton 1996, 96.)

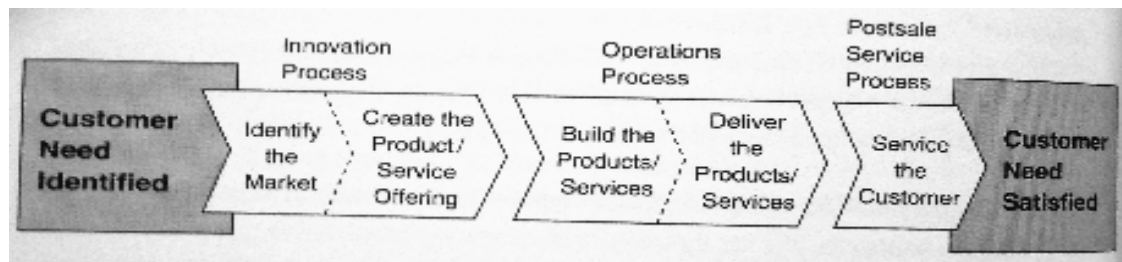


Figure 6. The Internal-Business-Process Perspective- The Generic Value-Chain Model (Kaplan & Norton, 1996, 96)

Starting with the first stage of the generic value chain, as can be seen from figure 6 above, the innovation process also named the long wave of value creation consists of two components. The first component of the long wave indicates that managers do market research to identify the market segmentation. While the second component of the long wave requires an organization to create new products and services to meet specific needs from both existing and potential customers. (Kaplan & Norton 1996, 28.)

The second stage of the generic value chain is the operation process as know as the short wave of value creation. This process begins with a customer order is received for an existing product or service and ends with delivery of the product or service to customer. The focus of this operation process is on the efficiency, consistence and on-time delivery of existing products and services to existing customers. (Kaplan & Norton 1996, 104.)

The last stage in the generic value chain is post-sale service process. This process guarantees that all products and services meet customer need at the highest level (Kaplan & Norton 1996, 105).

3.1.4 Learning and growth

The fourth or the final perspective on the BSC is the learning and growth perspective. This perspective “identifies the infrastructure that business must build to create long-term growth and improvement”. By focusing on people system and organizational procedures, organizations can enhance their capabilities to accomplish objectives of the three other perspectives. (Drury 2004, 1013.)

There are three principal categories for the learning and growth perspectives are identified by Kaplan and Norton according to their experience in building Balanced Scorecard across a wide variety of organizations. These principal categories include employee capabilities, information system capabilities, motivation, empowerment and alignment. (Kaplan & Norton 1996, 127.)

3.2 Strategy map

Kaplan and Norton state that the introduction of strategy map “has turned out to be as important an innovation as the original BSC itself” (cited in Niven 2005). Niven continuously enhance the crucially importance of strategy map by reminding us that “a picture tells a thousand words”. He explains that, by drawing strategy map, the scorecard innovators are able to seize quickly important interdependencies or hypothetical questions. As a communication tool, the advantage of strategy map can help all members of organization to understand easily the objectives and the tasks needed accomplishment. (Niven, 2005, 64.) Previous to Niven’s discussion, Kaplan and Norton discuss that the strategic objectives in the internal process and learning and growth perspective have to be conjugated and aligned. By following this rule, strategy map is able to deliver the value proposition underlying the organization’s strategy. Apparently, strategy map must be applied and modified flexibly in accordance with the company’s characteristic. (Kaplan & Norton, 2004, 319-320.)

The strategy map shows the cause-and-effect relationships that connect all explicit objectives in the various perspectives. Therefore the chain of cause-and-effect relationship is a logical diagram where intangible assets are converted to tangible value. (Kaplan & Norton 2004, 55.)

4 RESEARCH METHODOLOGY

The research methodology and the approach taken in this research are discussed here. The single case study, research techniques, data collection as well as limitations are presented.

4.1 Single case study

The main research method of the thesis research is the single case study method. The case company was selected to be Virvatuli-Valaisimet Oy in Kemi. I chose this company because it is appropriate for my thesis topic. The objective of the research is to make a budgeting plan for the case company with the construction of the Balance Scorecard (BSC).

“A case study is an empirical inquiry that is applied to understand a real-life phenomenon in depth. The case study method is applied when the boundaries between even and context are unclearly evident”. To assist the case study, data triangulation is used since data are derived from more than one source of evidence. That means there is an unlimited data collection in the case study. (Yin 2009, 18.)

In case studies, both qualitative and quantitative data can be collected and analysed (Yin 2009, 19). In other words, a case study may include several techniques such as collecting and analysing documents, interviews, survey, observation as well as consumer research (Greener 2008, 87).

Yin (2009, 19) assumes that the case study method is distinguished into two designs: single-case and multiple-case studies. In terms of accounting research, there are several ways to provide a research method by case study. I chose a single case study for my work because it is well-suited for making qualitative research and it is an appropriate design for my thesis topic because. In this research, an explanatory case study is applied because I explain the budgeting system and the BSC at both theoretical and practical level (Ryan & Scapens & Theobald 2002, 144).

Despite the fact that case study is the most useful method for this qualitative research, there still exist a number of prejudices against case study. Firstly, lack of rigor has been

one of the greatest critics of the case study. In many cases, systematic procedure has not been followed; biased views have been allowed by the case study investigator to influence the direction of the findings and outcomes. Secondly, providing little basis for scientific generalization is another concern about case studies. Thus, to answer the question: “How can you generalize from a single case?” case studies cannot be generalized to populations or universes except for theoretical propositions. Thirdly, a common complaint about case studies is that they bring a time consuming to deal with massive, unreadable documents. However, this complaint will not be appropriated in the future because of alternative ways to write the case study. (Yin 2009, 14-15.)

4.2 Research techniques

One of the two research techniques was applied in this Bachelor’s thesis is interviews. An interview is a tool where the data and finding are collected from a direct or telephone conversation between the interviewer and the interviewee. Interviews can take different types based on researcher’s point of view. Ryan, Scapens and Theobald (2002, 154) state that interviews include structured and unstructured forms. While Ying (2009, 107-108) categorizes interviews into three types as follows: in-depth interviews, focus interviews and surveys.

Since I gathered background information, I was ready to synthesize my findings and confirm them via one-by-one interviews with each two members of the case company. During my interview sessions, I collected empirical data with the use of an in-depth interview. An in-depth interview is one type of case study interview that enables the researcher to “ask key respondents about the facts of matter as well as their opinions about events” (Yin 2009, 107). After the first interview with Mrs. Aikio-Tallgren, she advised me to meet Mr. Tallgren to conduct the second interview. Therefore, this second interview was considered as a source of evidence in accordance with Yin’s discussion. The interviews with the two members of the Virvatuli-Valaisimet Oy were fairly open and were conducted as was planned. Thus, the interview questions were constructed to ask the interviewees about their opinions and information concerning their planning.

Another research technique used in this research is documentation. Documentary information is the most suitable for a case study. The strength of documentation is that it can be reviewed repeatedly because it provides stable and exact names, references as well as details of an event. In addition, documentation has a broad even from a long time period. (Yin 2009, 101-102.)

The two lists of my interview questions are provided as appendices together with the interview transcripts. The collection is illustrated in the following sub chapter of the chapter 4.

4.3 Collection of data

An important part of the research is done through the analyses of documents. In this research, the qualitative method is used for collecting data. According to Greener (2008, 86), qualitative research focuses on the interviewees' views and opinions about the event under investigation. Thus, qualitative information is mainly used in these analyses.

First of all, based on the suggestion of my thesis supervisor concerning the person of the case company to be interviewed, e-mails were sent directly to Entrepreneur of Virvatuli-Valaisimet Oy, i.e. Mrs. Aikio-Tallgren. Therefore, e-mails were exchanged in order to introduce myself and explain the motivation and the topic of my thesis as well as the time and place that is available for Mrs. Aikio-Tallgren to conduct an interview.

Secondly, two interviews were conducted with the management of Virvatuli-Valasimet Oy, i.e. Mrs. Aikio-Tallgren and Mr. Tallgren. The main objective of those interviews was to collect essential qualitative data as well as viewing the interviewees' attitude towards the concept the BSC. During the interview, a mobile recorder was used to record the interviewees' answer. Apart from recording, because the interviewees' speech tone occasionally was not loud enough, I took notes to ensure that all the information was received. After interviewing, I received a collection of documents of the case company from Mrs. Aikio-Tallgren. These documents such as brochures, catalogues were used as the secondary data in this research. Finally, the collected data via the interviews and other sources were studied and analyzed.

4.4 Limitations

This sub chapter starts with discussing the limitations of the case study method. Moreover, the weaknesses of the interviews are also touched upon here. Lastly, practical limitations in this thesis are presented.

Since I designed the method for my work as a single-case study; there are several drawbacks. Generally, criticisms usually come from ideas that the uniqueness or artifactual conditions surrounding the case is reflected by the single-case study. In other words, critics have a doubt about the investigators' ability of to do empirical work beyond having done a single- case study. (Yin 2009, 61.)

Even though an interview is one of the most essential data sources of case study, there seems to remain several weak points. Yin points out that the limitation of interviews could be poor recall, bias in responding as well as inaccurate articulation. Moreover, interviewees may be feeling uncomfortable because of the recording devices such as audiotapes despite the fact that it provides the most accurate interpretation of an interview among other methods. (Yin 2009, 108-109.)

For me, as a foreign student who studies a programme in which the language of instruction is English, collecting information in Finnish and translating it into English was a major obstacle. The official website and the brochures of the case company were two important sources of information. However, both of these sources use the Finnish language. Thus I had to translate them into English with the help of a Finnish student, Miss. Ida Pajari. After that, the supervisor of this research, Dr. Esa Jauhola helped me verify the correctness of the contents of the translations. Even though I had preliminarily agreed about the interpretation of the documents, I still perceived as some information could be lost. However, relevant articles and Internet sources that were used in this thesis can be regarded as reliable and valid sources of data.

5 BUILDING BALANCED SCORECARD FOR VIRVATULLI-KEMI OUTLET

This chapter begins with the mission and vision statement of the Kemi store. Furthermore SWOT and TOWS matrix are analyzed based on the data findings and my own point of view. Finally, the BSC for the case company is constructed on the basis of four different perspectives.

5.1 Mission and Vision

A Mission statement is usually conducted concisely as a summary of the aims or objectives of the business (Atrill & McLaney 2012, 7). With the translation from the BSC, mission of organization is decoded to make sure that all staffs have aligned themselves with the mission (Niven 2002, 76). That means that the mission statement is targeted to every member from the top to the bottom of the organization. Therefore, the mission statement of the case company is “want to offer customers cosy, beautiful, nice home lighting at a moderate price level” (Aikio-Tallgren 2012).

A Vision statement is a concise statement addressing the purpose of an organization from the mid to long term i.e. three to ten years. The vision can help organizations determine their value in the eyes of the world. (Kaplan & Norton 2004, 34-35.) However, making an organization’s vision may be potential problems by a misleading vision. Thus, the foundation design of the BSC can be a device to help a company translate its vision into reality. (Niven 2002, 88.) While a mission statement determines the task for the company, a vision statement supports to outline how that mission should be accomplished. According to Virvatuli’s Entrepreneur, the vision statement of Virvatuli is to establish a new business line / marketing company in the autumn 2013 to accomplish the mission statement (Aikio-Tallgren 2012).

5.2 SWOT and TOWS analyses

Apparently, SWOT analysis aims to identify the internal Strengths and Weaknesses beside the external Opportunities and Threats of an individual or an organization. The internal aspect of organization is analyzed base on staffs, infrastructure, location, product and services in order to determine the strengths and weaknesses of organization. The external aspect of organization is observed through political,

economic, social, technological, environmental and legal factors that so-called PESTEL analysis (Kaplan & Norton 2008, 5).

About Strengths, the Kemi store has a good service since they provide several options for customers to purchase products from the store. The Kemi store not only imports items from the Virvatuli, but also sells electronic products such as washing machine and TV. This combination creates the convenience for customers to purchase various items at the same time. Besides, as the store has a small amount of work, they will have a plenty of time to take care of customers. While the official website of Virvatuli helps customers to have a look at the trend of products that the store is going to sell. The second strength is that the Kemi store is able to adopt quickly about market demands because they communicate directly to customers as well as do not need approval from higher management. The third strength in the Kemi store is the education and the experience of the MD. This strength is presented by the flexible manager perceiving and manager's willing to keep always close contact with staffs.

Generally, the Kemi store has two weaknesses that they must cope with. The first one is lack of reputation. The Kemi store is one outlet of Virvatuli-Valaisimet. Virvatuli is well-known in Tornio since they have operated from 1970s. However the name of Virvatuli in Kemi region is still not a long-familiar brand because they have started for 1 year even though Kemi and Tornio are very close. The second one is vulnerability due to vital staff being sick or leaving since the number of staff in the store is small.

There are several opportunities for the Kemi store in doing business in Kemi region. Apparently, the municipality of Kemi city wants to encourage local business because it creates local employment and brings taxes for social aim. At the moment, the imported products of Virvatuli do not have competitor in the Kemi region. This is the chance for the store to promote widely their brand name to potential customers.

Definitely, the Kemi store must have a good preparation to against threats from outside. The biggest threat comes from the economic recession because it impacts on the purchasing power of the store. Then a competitor from Sweden must be considered because they have planned to expand their market in Finland. Finally, have a little pricing power an element that influence to decision-making in importing products.

According to SWOT analyses, we considered continuously to TOWS matrix in that has a wider scope and has different emphases than the ones mentioned above. There are four strategies in TOWS matrix: WT, TO, WO and WS. The purpose of TOWS matrix is matching factors identified to help managers answer two questions: How company use current strengths to take opportunities and avoid potential threats; how company defeat weaknesses by taking advantage of opportunities to minimize existing threats (Kaplan & Norton 2008, 6)?

The WT strategy: In general, the aim of the WT strategy is to minimize both weaknesses and threats. In this case, to overcome the obstacles from competitors, the store must increase their flexible services.

The WO strategy: Every year, the Kemi city has many events or programs to attract people such as snow castle the midsummer festival. By participating in those local events, the Kemi store can get the people's perception about the brand Virvatuli.

Strengths and Threats: To cope with the threats in the external environment the company may use its strengths. Therefore, maintaining strong relationship with suppliers can alleviate problems caused by the condition of economy. Moreover, experience in management is absolutely useful to solve it (S3; T1; T3). Besides, catching the trend of product is also a way to reduce threats from outside.

Strengths and Opportunities: the Kemi store needs to use its strengths to take advantage of the opportunities. Improving the network with the local municipality can be effectively promoted programs for the Kemi store. Similarly, the Kemi store can orient their customers by introducing high quality of products and services.

Based on data collected and my observation, I draw SWOT & TOWS matrix for Virvatuli-Valaisimet Kemi outlet as table 3 below. By analyzing the SWOT&TOWS matrix, the Kemi store can get an overview of its current situation in the local market.

Table 3. SWOT and TOWS analyses for Kemi store

	Strengths (S)	Weaknesses (W)
	<ol style="list-style-type: none"> 1. Good services (both store and online) 2. Ability to respond 3. High educated and experience MD 	<ol style="list-style-type: none"> 1. Low reputation 2. Vital staff being sick or leaving
Opportunities (O)	SO	WO
<ol style="list-style-type: none"> 1. Encouragement from local municipality 2. No competitive in large area 	<ol style="list-style-type: none"> 1. (S1;O2): introducing high quality products with nice design 2. (S3;O1): Co-operating actively with local government 	<ol style="list-style-type: none"> 1. (O1;W1): Participating in local events
Threats (T)	ST	WT
<ol style="list-style-type: none"> 1. Recession of economy 2. Competitor from Sweden 3. Little pricing power 	<ol style="list-style-type: none"> 1. (S3;T1;T3): Maintaining strong relationship with suppliers 2. (S1;S2;T2;T3): Making moderate changes in accordance with customer needs 	<ol style="list-style-type: none"> 1. (W1;T2;T3): Creating loyalty with customer relation quality.

5.3 Building the BSC

The BSC constructed for the case company is based on the information received via the interviews with Mr. Tallgren who is responsible for all the daily activities at Kemi store and Mrs. Aikio-Tallgren who is the owner of Virvatuli-Valaisimet Oy. Furthermore, the BSC is constructed according to the perspectives of financial, customer, and internal business processes, as well as learning and growth. All perspectives are discussed below.

1. Financial perspective

As a retailer, Virvatuli-Valaisimet in Kemi does not have a strong pricing power because of their suppliers and competitors as well as the impact on current economic situation. The fact is proved by the vision of the Kemi store whose products are sold at a moderate price level (Aikio-Tallgren 2012). Thus, these factors may have influence on improving the gross margin and the selling price. To improve profit, the management needs to concentrate on their increasing sales volume and costs control. Therefore, the management needs to consider two critical success factors to measure the performance system concisely. They are actual sales relative to budget sales or the sales-to-plan variance and inventory management.

For controlling costs, inventory control and in-store expenses are the main methods to improve profit. Therefore those performance systems are measured through the payroll percentage and the budgeted sales forecast.

Because of the economic recession, the revenue growth of the Kemi store in last year was very low. Hence, Mr. Tallgren (2013) expects the percentage of growth for the next year to be approximately from 6% to 10%.

2. Customer perspective

Maintaining old customers and gaining new customers are the objectives of the Kemi store. Virvatuli has experience of operating in Tornio for many years. Since Virvatuli decided to open up the new store in Kemi, they estimated that the customer return rate was approximate 60% and the majority of the people who knew Virvatuli in Tornio.

(Tallgren 2013.) At the moment, the Kemi store is using local newspapers as well as the official website for their advertising campaigns for special occasions such as an anniversary of operating year and Christmas time. However, they still need to pay more attention to their marketing mix to get gradually new customers and maintain loyal customers.

With approximately 90% of positive feedback from customers, the Kemi store proves that how they good at giving customers satisfaction from their customer care service. Therefore, to private customers, the customer care service is stated when the customers open the door. Regarding business customers such as one big partner of Virvatuli in Helsinki, Mrs. Aikio-Tallgren takes care of them weekly by asking them about their demands, delivery times as well as the feedback. (Tallgren 2013.)

According to Mrs. Aikio-Tallgren, the main products of the Kemi store are imported from China since they do not have their own production plant. Thus, it is advisable for the Kemi store to build a win-win strategy in order to maintain the good relationship with the current suppliers. Besides, it is necessary for the Kemi store to find new suppliers to get the variety of items needed.

3. Internal perspective

In the internal perspective, determining the trend of product as well as the design is an important action in order to compete with competitors. Besides, post-sale service consists of several options for customers when purchasing products from the store. (Tallgren 2013.) This Moreover, through partnering with several wholesalers such as K-Rauta and WACO, the Kemi store has a strong supply chain management that is a key success factor to measure in the BSC.

To succeed in business, the manager of Virvatui should recognize the importance of the internal processes. Therefore inventory management must be measured based on activity cost versus competition.

The Kemi store has made an effort to operate as a retailer on the basis of local business level. By offering jobs and services for local people, the Kemi store has an impact on

the society. Thus, getting close to local people enables the Kemi store improve their social image.

4. Learning and growth perspective

The Kemi store has a short meeting every morning during which all staff members discuss how the work was done yesterday and check the items if they are needed or not for the demand (Tallgren 2013). This kind of activity enables the employees of the Kemi store to motivate and to understand clearly the duties of every individual in the store.

In terms of small companies such as the Kemi store, culture is reflected on the performance of the company's owner and employees even though they have not built the company's culture yet (Aikio-Tallgren 2012). Therefore, whenever new staff members are recruited, they are trained by the owner in order to work and communicate with customers and to perceive their roles in the everyday business. Besides, the manager should encourage their staff to build their personal BSC to challenge and to improve their performance.

Even though the Kemi store is a small organization, information capital is still needed to consider when it forms the learning and growth perspective. Therefore, gathering, sharing and using information effectively are necessary to deliver information to everyone in the store.

In general, applying the BSC system enables the Kemi store aligns its goals and objectives with their strategic planning to execute their strategies effectively. Besides, through this alignment the manager can attain a higher level of individual performance in the organization as well as improve business performance. Finally, by comparing the proportion of sales from products to plan, the store can build accurately a budgeting plan for the next fiscal year. After objectives, the measures and initiatives of four different perspectives are clarified, the BSC for the Kemi store is exemplified in the table to follow.

Table 4. Balanced Scorecard for Kemi store

	Objectives	Measures	Targets	Initiatives
Financial perspective	<ul style="list-style-type: none"> • Revenue growth • Cost control • Asset utilization • Improving productivity 	<ul style="list-style-type: none"> • Increasing sale volume • ROCE • Payroll percentage • Cash flow • Net margin 	<ul style="list-style-type: none"> • 6-10% 	<ul style="list-style-type: none"> • Inventory control • In-store expenses • Actual sales vs. Budget sales
Customer perspective	<ul style="list-style-type: none"> • Attracting the target customers • Customer intimacy • Maintaining good relationship with partners • Holding moderate price 	<ul style="list-style-type: none"> • Market share • Customer feedback and complains • Rating of new items offered • Services introductions 	<ul style="list-style-type: none"> • Increasing satisfied and loyal customers. • Attracting new customers 	<ul style="list-style-type: none"> • Customer knowledge • Finding new suppliers • Building win-win relations with partners
Internal process	<ul style="list-style-type: none"> • Inventory management • Improving social image • Decreasing process time 	<ul style="list-style-type: none"> • Inventory levels • Social interaction • Matching products and services to customer needs 	<ul style="list-style-type: none"> • Profitability 	<ul style="list-style-type: none"> • Supply chain management • Post-sales services
Learning and Growth	<ul style="list-style-type: none"> • Motivate and prepare workforce • Building a good corporate culture • Ensuring Staff's competencies 	<ul style="list-style-type: none"> • Employee satisfaction • Quality of working environment • Strategic competency 	<ul style="list-style-type: none"> • Creating effective information system between staffs and manager 	<ul style="list-style-type: none"> • Personal BSC • Training and re-skilling • Introducing the BSC system

6 CONCLUSIONS

Discussions on the basis of the results are conducted here, together with the conclusions drawn on them. In this chapter the answers of the two research questions are provided. Besides, suggestion for future research is also given.

6.1 Discussion

In this research, the budgeting plan and the BSC were analyzed based upon both the theoretical discussions and the empirical findings. The aim of integrating the BSC to the budgeting plan is that the case company could implement the suggested measurement performance system to their strategic planning. Thereby, both the managers and the staff members of the Kemi store could understand the connection between the company's strategy and the BSC. In terms of the small scale company such as the Kemi store, the typical measurement is based mainly on the financial measures such as sales data. However, by adding information from non-financial measures, the case company can improve their performance. Therefore, this Thesis research as a case study research provides an example of how the BSC impacts on the budgeting plan in the case company named Virvatuli-Valaisimet outlet in Kemi.

Besides the advantage of the BSC, the fact indicates that constructing the BSC for the business units is not as simple as it seems. Many managers may have a misconception that their company has already built the BSC system since they add non-financial measures such as customer satisfaction to financial measures. However, these non-financial measures do not provide specific guidance for the future. (Kaplan & Norton 1996, 284-285.) As for the case company, there are several potential benefits that are consistent with the BSC. Thus, the key success factors such as management control system and goal alignment would be measured while applying the BSC. For example, the number of inventory counts could be increased to help managers in controlling the shrinkage.

6.2 Conclusions

The main objective of the thesis was help Virvatuli-Valaisimet outlet in Kemi in planning the budget in accordance with the BSC. In order to achieve this objective, I reviewed the theories of budgets and the BSC to approach to the research questions. My objective was to conduct a research that could be helpful for the case company, me and others to get different knowledge about the chosen topic. The result of the research at the same time gathered information and data findings in the theory part can serve managers in the case company who are unfamiliar with the concept of BSC. The theory section of this thesis provides readers a general view of budgets and the BSC and how they are built and managed.

For me, as a student writing to accomplish this Bachelor's thesis, the most crucial issues were the efforts to discuss my topic and objectives with the collected theory background. During the process of working, I realised that the appropriate information about the chosen topic enables me to combine the various theories and apply the data collected to my case company.

As was discussed in Sub-chapter 1.4, the two main research questions were formulated to achieve this research. The answers for the research questions are given below.

a. What is the basic system of a budget?

As was presented in Chapter 2.1, a Master Budget can be created to provide the financial information to help managers to plan and control the activities of the business. However, a Master Budget is formulated in many ways based on the difference of business scale. The Sub-chapter 2.4 discussed how a Master Budget is applied for the Kemi store. As a retailer, the Kemi store does not have the manufacturing functions because the products sold are imported. Therefore, compared to the standard of the theoretical Master Budget, the practical budget of the Kemi store excludes the "direct material" and "manufacturing overhead" parts. The framework of budgeting plan was illustrated in Sup-chapter 2.4 to provide the Kemi store a concrete model of a Master Budget.

b. How does the BSC support the strategy in the case of Kemi store?

As was discussed in Sub-chapter 5.3, since the concept of the BSC is not perceived clearly by the managers, constructing a BSC can support the managers enhance their understanding of how to achieve organizational strategy as well as improvement in the case company's financial performance. Besides, the BSC also links clearly the understandable strategy to the staff members of the Kemi store. This linkage enables everyone in the store understand the store and their personal goals as well as the strategy to achieve these goals. The financial measures such as ROCE and cash flow are the main targets to examine. In order to accomplish such financial objectives, managers must align those targets with their customers, internal business processes, and learning and growth objectives.

6.3 Suggestion for future research

Since it seems to evident that, in the future, the BSC will be one essential way to appraise the performance measurement of all business sectors, especially the retailers, this thesis research could work as a basis for future research. On the basis of the suggested BSC, Virvatuli-Valaisimet Oy's management would perceive that the BSC is generally beneficial. Furthermore, during the progress of the research, several practical suggestions for the future research came out. Therefore, future research can apply the implementation of the BSC to the operational process of business units. In addition, the Virvatuli-Valaisimet outlet in Kemi can apply a strategy map to get a detailed scenario about their strategic plan.

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APPENDICES

Appendix 1

1(5)

Interview with Mrs. Paula Aikio-Tallgren, the Entrepreneur of the Virvatuli-Valaisimet Oy was conducted on September in 2012.

Interviewer: - Would you like introduce briefly the structure, history and background of your company?

Interviewee: - The Company was established in 1970s by my parents in Tornio. At the beginning, it operated as a retailer by selling several kinds of classic lamp such as hand-crafted interior lamps and all products were made by domestic manufacturer. I decided to repurchase from my parents in 1994 then registered as the company along with the name Virvatuli. Later, Virvatuli-Valaisimet Oy was set as the official name of company. The initiative objective of Virvatuli was focus on importing, mainly from Italy, Spain and Sweden (electric products) markets. At this moment, 100 percent of product is imported from China. These products must be satisfied the Certification of Electro-technical Equipment (CEE) standard before exporting to Finland. However the Virvatuli sometimes received bad quality products. To deal with circumstance of depending on exclusive supplier, I must find other supplier, and at least I found one lighting firm in Hong Kong. The process of transporting goods from China to Finland is executed by WACO logistics Finland, one of cooperation of Virvatuli. Besides, Virvatuli also cooperate with several wholesalers in Finland such as K-Rauta, Prisma or Anttila and so on. By opening new store in Kemi 2012, Virvatuli- Valaisimet Oy has seven employees in total and one sales manager. Those employees are hired flexibly as season's worker.

Interviewer: - Can you explain shortly your company mission and vision statement?

Interviewee: - We have two companies as you know but maybe I concentrate here on our wholesale business which is Virvatuli-Valaisimet Oy. In Virvatuli we want to offer our customers cosy, beautiful, nice home lighting at

moderate price level. Our next plan is to establish a new business line / marketing company. This will probably happen in next autumn.

2(5)

Interviewer: - Does your company have strategic planning in both short and long term to achieve success?

Interviewee: - No, we do not have any written strategic plan at the moment. Our last strategic plans referred some years back, when we made decisions about expanding our retail business to Kemi and our wholesale business to Russia.

Interviewer: - How do you build your company's culture?

Interviewee: - I think that every company is a reflection or photo of company's owners, employer... At least this applies to small and medium size companies. When company starts, there is usually only the owners, establisher and his personality affects the whole business. That is very ok, I think. When company employee more people, the basic spirit usually remains – sometimes changes but the culture, visions, way to do work, way to communicate with customers, way to run everyday business usually come from the owners. This is at least how it had happened in our company. We have not built company's culture – it has come as natural. Fake company culture never works, is my opinion.

Interviewer: - Have you ever made the short-term decisions that affect to long-term target?

Interviewee: - All the time

Interviewer: - Can you tell me some stories about cooperating with Chinese company?

Interviewee: - In one commercial trade in Norway, I was introduced by one agent. She said that there is one company in China that is producing the lighting production. Then I went to China to visit that company and I found that the production is cheaper and better style than production imported from Italy, Spain.

Interview with Mr. Erkki Tallgren, the Managing Director of the Kemi store was conducted on August in 2013.

Interviewer: - What is your position in this shop?

Interviewee: - My position in this store is the owner, the sale man, the cashier, and even the cleaner.

Interviewer: - How long have you been working here?

Interviewee: - I used to work in Tornio since 1994, but for the Kemi outlet, I have worked almost one year.

Interviewer: - Can you summary your task in this shop or list some kind of activities in everyday working?

Interviewee: - I used to come to the store early to check and decorate the items, loading data of items to computer, also working as other staff in the shop.

Interviewer: - Do you find the job interesting?

Interviewee: - Yes, I have chance to communicate with so many different customers.

Interviewer: - How do you cooperate with your colleges in this shop to maximize the efficiency of the work (meeting, working diary, report, rules of the game...)?

Interviewee: - Of course we do have small meeting in every morning. In the meeting, we discuss how the work was done yesterday and check the items if they are needed or not for the demand. Besides, sale man has to follow the rule: on-time working, good behavior with customers as well as partners.

Interviewer: - Do you and your colleges in this store understand clearly the mission and vision of Virvatuli?

Interviewee: - Basically, only me, Paula and Anna are in charge of setting the mission and vision of Virvatuli. This shop actually has two parts; the first part is Virvatuli-Valaisimet outlet that all the items are imported from Virvatuli. The second part named Revontuli-Valaisimet which sale other

electronic productions like washing machine, TV, mobile phone... as you have seen.

4(5)

Interviewer: - Do you often up-to-date customer care services?

Interviewee: - We have two different levels of customers. For the big customers (for example there is one big company in Helsinki), Paula has always taken care weekly to them. She often sends them questions in order to know what items they need, when they need those items or any feedback from them...For the local customers, our service begins when the customer open the door. Our staffs must be saying nicely "Hi" or "Hyvää päivää" to customer. Our duty is make customers feel they are welcomed. If the second customer comes, we will ask them to look around first because we are dealing with one customer here.

Interviewer: - How do you manage the on-time delivery (to customers)?

Interviewee: - We have some options for customers. They can choose either come to take the items from the store or receiving from delivery (with cost of course).

Interviewer: - Is the timing of your work flexible?

Interviewee: - Only the time I was working in Tornio, not in Kemi.

Interviewer: - Have you ever asked or required to work overtime?

Interviewee: - Yes, also only in Tornio.

Interviewer: - How many times you receive the feedback from customers? (Both negative and positive)

Interviewee: - We received so many good feedbacks from customers. Many people said that they feel enjoyable every time they come to the store. And I think the positive feedback is around 90%. Of course, we can't avoid complaints from customers. They come here because of mistake production like broken phone then they blame us for that. So first thing we need to do is making them cool down, then try to explain to them that is just the phone, the problem is not between you and me...

Interviewer: - Can you estimate the rate of returning customers and the new customers?

5(5)

Interviewee: - Virvatuli operated in Tornio for long time, so when we decided to open a new store in Kemi, I realize that there are around 60% customers return, majority from those who knew Virvatuli in Tornio)

Interviewer: - How do you often send the financial report to manager?

Interviewee: - We ask one person outside the company who make the financial report monthly however I also can estimate with my hard experience. I estimate through the invoicing, those invoicing is controlled by Anne.

Interviewer: - How do you often participate in company's meeting?

Interviewee: - Luckily, I and Paula are marriage couples so every time when ideas come out the mind, we immediately discuss by the phone.

Interviewer: - Do you know any competitors in this area?

Interviewee: - All I know is that there is no competitor in this area; I can say our company is a wholesaler to whole Finland. Actually, there is one company in the middle of Finland, but that's quite far from here and our market also includes Rovaniemi area. However, one big company in Sweden will come to Finland and that is one biggest competitor.

Interviewer: - How many percent of revenue growth you consider as Virvatuli Kemi outlet is able to reach next year?

Interviewee: - It's very hard to estimate, before the recession of economy in Finland also in Europe, our revenue growth always stable between 5 to 25 %. Because of the economic recession, our growth last year was very low. But I hope the growth for the next year will be 6-10% even though there is one big company in Sweden that planned their business in Finland. We must to compete with them about the price, the design of item, try to guess the trend of production.

