

Outsourcing and centralizing corporate accounting -Case Aspo

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Abstract

Technological development has given more options on how to organize accounting and financial department, namely outsourcing and centralizing. This thesis studies those subjects and how those are handled in companies' accounting. Main objective is to find out how company sees its strategy regarding these two things and how can it best utilize possibilities of outsourcing and centralization. Finding out best practices for these thing will benefit companies.

Research question of the study is: How can companies best utilize outsourcing and centralizing in accounting? To answer this question, a framework is built, which shows benefits and downsides of each combination. Examples for types of companies are also named. All combinations were found suitable in specific situations. In empirical part this framework is used in a case study to see how it fits in a real life company. Case study also examines on how the company has seen these problems, how their decision-making is done and if their company is adjusted towards the kind of model that their company form would suggest or if they have different view of the alternatives of outsourcing and centralizing.

The empirical part is a case study of Aspo Plc's financial department reorganization. The case goes through different sorts of models that had been utilized during the reorganization. These models are studied through checking how they handle outsourcing and centralizing. During the whole monitoring period there was a shift from decentralized and in-housed system to a centralized and outsourced system. Therefore, this case gives views from different situations and combinations of these two aspects.

Benefits that were found during the theoretical part of the study held mostly true also in empirical test. In the case example, some situations were reacted more slowly than the theory suggest and in different ways, but overall same conclusions were reach in both situations. Those conclusions suggest that in a company like Aspo, most effective way is to outsource and centralize accounting as much as possible, since cost benefits outweigh downsides that can come from these choices. This option is also most viable in general.

This study gives more understanding on how to handle these two aspects as one thing and making strategies concerning both outsourcing and centralizing, not just one of them. The framework can be utilized in other similar service processes inside companies, not just financial department and accounting. This benefits all service processes that are commonly run inside the company.

Keywords outsourcing, centralizing, accounting, decision-making

Tiivistelmä

Teknologian kehitys on avannut uusia vaihtoehtoja yrityksille järjestää laskentatoimen toimintoja, erityisesti ulkoistamisen ja keskittämisen saralla. Tämä lopputyö käsittelee näitä aiheita ja kuinka nämä kaksi nähdään yritysten laskentatoimessa. Tutkimuksen päätarkoitus on tutkia, kuinka yritykset suhteuttavat strategiaansa ulkoistamis- ja keskittämispäätöksissä ja millaisia mahdollisuuksia nämä luovat. Tutkimuksessa pyritään löytämään parhaita käytäntöjä näihin alueisiin.

Tutkimuskysymyksenä on: Kuinka yritykset pystyvät parhaiten hyödyntämään ulkoistamista sekä keskittämistä omassa laskentatoimessaan? Tätä varten tutkimuksen teoriaosassa rakennetaan viitekehys, jossa tutkitaan näiden kahden aspektin hyviä ja huonoja puolia. Viitekehys luo neljä eri vaihtoehtoa yrityksille, joista yritykset voivat valita. Jokaisella vaihtoehdolla on omat hyötynsä ja ne sopivat tiettytyyppisille yrityksille parhaiten. Tutkimuksen empiirinen osuus perehtyy yhden yrityksen taloushallintoon ja sen tapaan hoitaa ulkoistaminen sekä keskittäminen. Case-tutkimuksessa on yrityksen päätöksenteko ja muutos taloushallinnon mallissa. Tätä muutosta tutkitaan peilaten sitä viitekehukseen.

Case-tutkimuksen kohteena on Aspo Oyj ja sen taloushallinto. Muutosprosessin aikana yritys kävi läpi useita keskittämisen ja ulkoistamisen vaihtoehtoja. Tutkimuksen aikavälillä taloushallinto siirtyi hajautetusta ja sisäisestä mallista keskitettyyn ja ulkoistettuun malliin. Tässä muutoksessa näkyi koko viitekehysten skaala ja toimivuus.

Edut joita löytyi teoreettisessa viitekehyksessä pätevät myös empiirisessä tutkimuksessa. Muutamia tilanteisiin reagoitiin yrityksessä hitaammin kuin olisi teoreettisesti toivottavaa, mutta yleisesti lopputulemat olivat samanlaisia. Nämä päätelmät tukivat Aspoa käyttämään ulkoistettua ja keskitettyä taloushallinnon mallia. Mahdollisimman suuri ulkoistaminen tuo yritykselle eniten säästöjä ja nämä hyödyt ovat suurempia kuin mahdolliset haitat, joita ulkoistamisesta saattaa aiheutua. Myös yleisesti keskitetty ja ulkoistettu malli on useimmilla yrityksillä hyödynnettävien mallien joukossa.

Tutkimus antaa uuden näkemyksen, kuinka käsitellä ulkoistamista ja keskittämistä yhtenäisenä vaikuttajana yrityksissä. Viitekehys toimii myös muihin sisäisiin palveluihin yrityksessä ja voidaan laajentaa näihin. Näin tutkimuksella on myös laajempaa hyötyä.

Avainsanat: ulkoistaminen, keskittäminen, laskentatoimi, päätöksenteko

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1 Introduction

Company's accounting process can be seen as a straightforward system, but making an effective system can be quite difficult. Most important things for accounting are cost-efficiency and good service level (Everaert et.al. 2007). These things make the core idea on what should be demanded from it. How these are achieved can be done in many ways.

The classic way is to have a financial department inside the company (Malcolm, 1999). Even this can be done different ways. Clear division is either having centralized or decentralized accounting. This means having all processes done in one place or dividing processes e.g. by location or by line of business (Burgess, 2004).

Through the progress of technology, outsourcing has become more and more popular option for organizing accounting. Moving non-core activities away from company gives more resources to focus on the core competence (McIvor, 2000). Being able to share information securely has made outsourcing a viable option for financial information to be transferred outside the company without having risks of information leakage.

These two aspects can be combined in a decision making to create a simple, more effective way of seeing accounting process and making the most efficient organization both financially and in service ability. Different companies have different needs and already established organizations, so same combination of outsourcing and centralizing decisions won't work in every company. In this thesis I will go through strengths and weaknesses of different combinations and through a case company assess whether their change in accounting processes have been an effective one and a step towards better.

The main research question in the thesis is:

How can companies best utilize outsourcing and centralizing in accounting?

This question is dealt with creating a simple, yet effective framework that shows benefits of different combinations of centralizing/decentralizing and in-house/outsourcing. This framework gives suggestion on what combos work in which situation. Though a simple model, it also gives suggestions of flexibility and in-between models as these should not be seen as either or options, but can also be something in-between. Framework is then tested in a case example which goes through transformation of financial departments in conglomerate corporation, Aspo Plc.

Technological advancements make it easier for companies to outsource most of their processes that aren't their core-competence. For this reason, it is practical to research how and when this should be done. Same thing holds true for centralizing. Technology makes it easier to move processes to one location whether it is geographically same or not. In IT-systems this does not make difference when thinking technological aspect.

Through case study I will evaluate one company's, Aspo Plc, accounting processes through the scope of outsourcing and centralizing. This comparison with the framework will give the framework more concrete viewpoint and show, how it works in real life. I will conclude with the findings from the case study and go through on how effective the framework is in giving insightful information on evaluating how to build a financial and accounting process in particular.

As the research question outlines, focus is on accounting of companies. As the case has strong connection in technological side and accounting systems, these give their own aspect in outsourcing and centralizing. Framework also expands in different administrative services, though the case focus is on accounting.

This thesis is mostly about how using the framework in accounting, but these principles are usable in other administrative services. Some modifications might be needed, but similar research could be made for example in IT side of companies. These similarities and dissimilarities can give interesting comparison in trying to create even more complete centralization and outsourcing strategies.

Aim of this thesis is to give concrete options for decision-making before the executive decision is made. Secondary there is also decision-making options in the case as decision making process can have major effect in best option. How decision is made and executed can change best possible solution. Therefore, the option chosen needs the right kind of execution in order to work well. For this reason, empirical part addresses also decision making. This gives more wholesome picture of the situation in the case company as well on how the framework is fitted on reflecting the case company's choices.

Thesis is divided in two parts, theoretical and empirical part. In the start of empirical part there are some key terms for the thesis. Next the thesis addresses the two main elements: Outsourcing or in-housing and centralizing or decentralizing. Key points regarding accounting are discussed in these sections. Next chapter combines these two elements and finds what kind of synergies there are in combining different options. It also talks about what sort of firms can

benefit from what sort of combination. Framework for outsourcing and centralizing strategy is also built here.

Next chapter focuses on empirical method of the thesis. It shows the benefits and limitations of case study and what other kind of studies could be used in studying this sort of problem and how would those differ in research and results. Chapters following this one are about the case company and the case itself. Case is gone through in detail and then focused more on the centralization and outsourcing parts of it. Then there is detailed reflection of the framework and were the case company Aspo fits in it. Benefits on its choices and what could have been made differently are addressed in comparison for the theoretical part.

Finally, all this is concluded together in the conclusion section. It sums up the thesis and its main points. It also discusses possible future of accounting in general and how it can affect centralization and outsourcing strategies in this field. It also gives suggestions for further studies that would give different views and insights compared to this thesis and how those further studies could be compared to this one.

2 Definitions

In this section there are some key issues that will be addressed in the thesis. In order to be clear about these issues, they will be opened up here so they will be clear in the thesis itself. This is for clarification of the substances that is dealt later in the thesis. These are discussed here as for clarification on their meanings and how these concepts are seen in this thesis as some of these can be bordered differently. This way these key concepts should not get mixed up.

Financial department of a company have many different functions that it controls and is responsible. Main responsibility of the financial department is to have control of company's money flow, keep records of it and monitor that it works as is meant to be. Financial department also makes budgets for the company. In this thesis when talking about financial department it is about the whole division that deal with financial side of the company or corporation in the empirical part of the thesis.

Administrative services are supporting services that work for other units inside a company. Those include finance, human resources and IT-service systems. These services are seen as internal services, but can also be outsourced when, still serving units inside company, they can't exactly be called internal services. Administrative services are therefore broader and more accurate term in a thesis addressing outsourcing.

Accounting in this thesis is dealt in it basic form. Mostly accounting processes that are talked in the thesis are about financial accounting systems, but as they also produce management accounting information, management accounting can't be excluded. Therefore, in this thesis I am talking about accounting in general. In some instances, were it is clear that the issue only touches either financial accounting or management accounting, then it is specified. Otherwise it is accounting in general.

Outsourcing is a process where an outsourcer moves some of its processes to another company (outsourcee) that from then on does this work for the outsourcer and gets paid for it. Outsourcing is often used to move non-core operations to companies that can do those more efficiently. This way company can focus on their core-competence and relieve capital. Outsourcing can be done domestically or abroad. If a company relocates some of its business function to another country that process is called offshoring or nearshoring. This should not be confused with outsourcing to a foreign country.

Centralizing in this instance means focusing processes to one place. This can be done physically but it can also be by uniting processes to one electronic system. Important thing about centralizing is that all processes can be handled under one roof, so to speak. Everything goes through the same flow, so that there are no information breaks like having one subunit that does part of the work and then sends it separately forward to other unit. In accounting this would be different units having their own accounting which they would do separate until uniting these to corporate level.

One hybrid of in-house and outsourced system is **shared service center (SSC)**. It is a separate unit that sells its services inside the company or corporation. This way cost allocation can be done more accurately as the SSC will control these costs. SSC can be compared to offshoring or nearshoring domestically. SSC can also be built with multiple companies when they form a separate outside company and this way it will work as an outsourcee. These instances, where SSC is built with multiple companies, are quite rare but should still be taken account of. Companies in the same field of business could take advantage of SSC as their knowledge would benefit each other in many inside services without sharing their core-competence. End result could lower each companies' costs without anyone losing their competitive advantages. Risk assessment would be key here: how much information to share with companies.

3 Outsourcing accounting

Outsourcing has been growing trend in the field of business (Gospel and Sako, 2010). As the competition in every field becomes tougher, companies need to focus more on their core-competence. Therefore, using outsourcing services gives companies more time and resources to do just that. Types of outsourcing have been done to many parts of companies, even though some of these are not considered outsourcing any more. Giving an example, cleaning services can be seen as outsourcing service, even though most would consider this just as bought service. This sort of outsourcing has been going on for long time. As time has progressed, companies have started to outsource processes that are closer to their actual business at hand.

Financial accounting is one of the mandatory jobs for all companies. It also gives important financial figures for companies in order for them to monitor and develop their business. As this is mandatory for all, it also creates expenses that are not avoidable. This forces companies to figure out the best way for them to arrange it. Often the best way is the cheapest way. Some standards need to be secured, but after an acceptable service level, it often comes a matter of saving as much in costs as possible.

Small companies don't have that big of resources so they often outsource their accounting to accounting firms. This has been going on for long time for these small firms. They don't get benefits of doing accounting themselves as this is out of their resources that could be used to their core business. That is why it is better way for them to outsource this function as there are multiple choices where to outsource. By outsourcing, they also often achieve better reliability level as accounting firms have been specializing in accounting and therefore have better knowledge about it.

Bigger companies have had tendencies of keeping all their business-related processes in-house, even if those have not been their core-business. Larger companies have possibility of choice on keeping financial processes in-house as it requires larger amount of work hours that can be fitted in a larger company by having own financial department. Small companies often don't have the resources for complete financial department. This has been the usual way of arranging accounting. With the progress in technology field and larger accounting firms starting to become more available, larger companies have started to see the possibility of outsourcing their financial processes, financial accounting being one of the first ones to outsource. Reliability levels have risen with the outsourcees so trusting this important process

is no longer such a risk for company. Also monitoring the work of outsourcee is easier as systems can be made open for view, if needed.

3.1 Outsource decision making

As technology has been developing, outsourcing different accounting functions has become more relevant to companies. Being able to partially outsource has given companies more chances to keep core competence of accounting still inside the company while outsourcing less demanding jobs. This of course has to be done without destroying the whole structure and with care, so that accounting processes stay intact.

In many cases accounting is not seen as a core skill of the company and this is often true. Basic accounting doesn't need specific high skills of a designated industry. This doesn't mean accounting can't be core competence of a company and more importantly, it doesn't mean it should always be outsourced. There is always much to consider when thinking about outsourcing and accounting isn't any different. Some technological advancements that a company has achieved by its own or in co-operation might be so beneficial that those benefits give savings that outnumber outsourcing.

McIvor (2000) had a practical framework of outsourcing. His framework has four stages in where outsourcing decisions are made. Accounting is often only on the first stage, which is "define 'core' activities of business". It suggests that basically all non-core functions should be outsourced. Only exception would be different political reasons inside or outside the company which might force the functions to stay in-house. These could be related to labor unions or different payroll systems that could become costly for the company. Even though this is only one step, it is the most important one, as defining core activities can be very hard and must be made with careful consideration.

This core activity focus has been seen in other studies as well. Everaert et al. (2007) found out that focus on core activities is seen as an important factor for companies that outsource more than 80% of their accounting workload. For companies that outsourced more selectively this core activity focus was not as significant reason to outsource. This could be explained by cost-focus. Core focus has not been thought, but lower costs have been seen in

some areas of accounting. Because of this, outsourcing has been used. In a way they have liberated resources for core-activities, even though the reasoning has been saving in costs.

Other consideration is the cost aspect of outsourcing. Does it create savings in reality? This could be hard to predict in the long term. As stated by Quélin and Duhamel (2003) cost reduction is the most important factor in accounting outsourcing for SMEs. Often savings can be made since the demand for in-house accounting services is too low and this would generate slack in-house. By outsourcing, the service provider has the ability to use economies of scale and direct the necessary workforce needed for the jobs. If there is a change in accounting processes, fixed cost are lower in outsourcing than building new in-house system. Cost reduction being the most important factor is questioned by Everaert et al. (2007) as they found in their study that cost factor affected outsourcing decision the least of their listed factors of reasons to outsource. There was also insignificant difference in reasons not to outsource. Cost benefits can't be conclusively said to be seen as a positive or negative factor for outsourcing. It seems to be somewhat situational thing and need to be assessed case-by-case, though cost reduction is mostly accepted reason for outsourcing.

Everaert et al. (2007) found that the expertise level that could be achieved from outsourcing is a major influence in outsourcing decision. Companies specialized for accounting actions often have more expertise in accounting than a company could achieve. This expertise level difference often decreases as the size of the company that outsources grows, as they have more need for accounting actions and can therefore hire more competent workforce. This appreciation of expertise is significantly higher with companies that outsource all or most of their accounting.

Expertise level can also be a reason not to outsource or it can affect majorly on where to outsource. If parts of the accounting processes are seen too difficult to handle, it might not be advisable to outsource, even with cheaper prices. These hard processes might come too hard for the outsourcee to handle and then cost might rise from the expected level, as these sort of hidden cost can't be seen beforehand.

3.2 Offshore outsourcing

Offshore outsourcing can create problems that companies haven't thought about early on. Nicholson et al. (2006) mentions local laws, regulations and ethical standards as few unforeseen problems that offshore outsourcing can create. These problems have been seen by other authors and scientists. Offshore outsourcing can also create security risks as supervising becomes harder because of distance and possible different cultural working styles.

Given these, offshore outsourcing also has its benefits. As accounting doesn't require physical presence, gives offshore outsourcing a clear possibility. Where the benefits come from efficiency, around-the-clock availability and costs. It can in some cases create access to a foreign market (Weidenbaum, 2005). This isn't that likely with an accounting service, but having a foothold in another country can be beneficial. It can also give more security for smaller subsidiaries in different country, if some key aspects of the company can be located there. Having a major business function in a certain country will assure that countries subsidies and even government of longer commitment.

On a more governmental level there can be fear of losing jobs in the original country. This can make governments to use laws that try to prevent offshore outsourcing. This kind of behavior is harmful to global business and distorts markets. In their study Gregory et al. (2006) came to the conclusions that this sort of job loss isn't in fact happening in a large scale. Rather, offshore outsourcing can benefit also the original country. As companies save in their non-core activities, they can invest more on core jobs happening mostly on the original country. This gain of jobs was noticed also by Weidenbaum (2005). In his study he found out that as Delta Airlines outsourced 1000 jobs offshore to India, they saved 25 million dollars and could hire 1200 more people to United States and this way create more jobs. These sort of benefits have been found with other companies also e.g. Microsoft and Oracle. Gonzalez (2006) found the same thing that there isn't any major unemployment that would be because of outsourcing. So claim of job loss because of outsourcing is not accurate, instead it is quite opposite.

Offshore outsourcing can have major initial expenses and needs lots of research beforehand. Usually much more than outsourcing in the same country. This need comes from the laws and cultural differences that could come from working in a new country. These things, if not research thoroughly can later create difficulties, extra costs and even create so difficult problems that the whole offshore outsourcing becomes nearly impossible or highly expensive. These reasons have become up in outsourcing to India which has different sort of accounting

laws and don't know western laws nearly as well as the westerners do. These problems are seen in both in-house outsourcing (offshoring) and in outsourcing as general. (Nicholson et al., 2006)

There can also be surprising hidden cost that seem at first to have nothing to do with outsourcing. These come from the infrastructure in the country that a company is going to outsource. Often in lower cost countries, the infrastructure isn't as good as in the country where the company primarily works at. This can create unnecessary cost for the company as it might need to build infrastructure or manage to work around the inadequacies of the infrastructure (Weidenbaum, 2005). Insufficient network connections would be a major issue in outsourcing a process like accounting. Local legislation can also come out more demanding than it was originally thought and create problems (Gonzalez, 2006). There can also come new laws or "surprise" taxes with which the country, where companies are outsourcing, tries to benefit as much as it can from the outsourcing (Bora, 2016).

Problems and fears also come from intellectual property rights. Intellectual property rights are not that big issue of an issue in accounting, but some secret information can also flow through it. In these cases, companies might have the fear of outsourcee stealing information. When outsourcing, some IP is bound to end up in outsourcee's hands and there comes the risk of them abusing this information (Roy and Sivakumar, 2011). This risk is usually smaller in developed countries as those have stricter laws and better control systems in general. This doesn't mean that exploitation onshore couldn't happen. To avoid this, some companies try to limit their outsourcing to basic routines to avoid losing important intellectual property (Weidenbaum, 2005). Outsourcing accounting has this benefit of basic routines on its side.

As a more global effect offshore outsourcing can create bigger markets for the company itself. Offshore outsourcing can create opportunities to penetrate to new market. On top of this, outsourcing benefits the local community and grows its wealth. In a global world, as new markets arise, those become new possible sources of profit (Weidenbaum, 2005). As the markets grow, so does the level of expertise so having more possible outsourcing places gives better opportunities for better quality in the future.

Table 1: Pros and cons of offshore outsourcing

Pros	Cons
More core-jobs for company	Less basic-level jobs
Total savings	Hidden costs
General outsourcee expertise	No special expertise
Stable service level	Law and regulation problems
New market penetration	Safety concerns

Table 1 sums up benefits and drawbacks that offshore outsourcing might have. These are key points regarding offshore outsourcing that should be taken under consideration when planning offshore outsourcing. These things are interesting in offshore outsourcing in particular. Therefore, these are listed here and pointed out as important points.

3.3 Taxation of outsourcing

Governments have tendencies of trying to influence on the amount of companies' outsourcing to other countries. This is done to keep steady tax-flow inside the domestic country in which the outsourcer is located at. To avoid outsourcing to other countries, governments arrange income taxation so that companies would outsource less. Aronsson and Koskela (2009a) studied how government react to reduce low-ability type jobs to move in other countries. This is done by lowering marginal labor income tax for low-ability type jobs and raising marginal labor income tax for high-ability type jobs. This means higher progression in labor income tax. Because of this, companies have better economic reasons to invest domestically as net income for workers gets larger as this is implemented.

Government of the country that outsourcer is going to outsource should be reactive to outsourcing. If government of outsourcer is reacting this way, they should also react in the same way. This applies when outsourcing from a specific country is large (Aronsson and Koskela, 2009a). This is needed to stay competitive regarding taxation. If the outsourcing is low, then government can use more self-selection as it is not effected as much as in strong dependency situation.

Aronsson and Koskela had other study (2009b) on how to avoid this sort of governmental behavior in order for outsourcing to not effect taxation that much and so that

taxation would not affect companies in outsourcing decision, whether to outsource domestically or abroad. This would require an instrument for direct taxation of outsourcing. Optimal outsourcing tax would be positive. If not operative tax or in absence of outsourcing tax, outsourcing to foreign countries would result in more progressive marginal income tax rate. In order to influence economy as little as possible and still keeping wanted taxation level, outsourcing tax would work better than more progressive income tax.

Tax benefits for other options can also affect willingness to outsource. If company can reduce its taxation burden by transfer pricing between units in different countries, it can be more beneficial to have foreign direct investment (FDI) to that country than to outsource processes (Egger and Seidel, 2013). In order to use transfer pricing, a physical sub-company or office is needed in a specific country. Arm's length standard is usually required in modern day transfer pricing, but this still leaves room for movement in pricing. Profits can also be moved to low-taxation countries.

These issues can change an outsourcing option to an offshore option. In this way transfer pricing between units in different countries distort optimal decision models for outsourcing. In Egger and Seidel's view, taking away the tax differential would result in all firms to prefer outsourcing. This would be because of lower fixed costs and therefore profits would be higher. This suggestion is an isolated model were only the tax mechanisms are taken away and else would stay unaltered.

The trade-off between tax-benefits and fixed cost determines choice between outsourcing and FDI. High fixed costs forces company to outsource were high tax benefits would benefit FDI. These calculations are handled in an isolated decision-tree. Effects such as stability of current taxation level will have an effect of decision. Multinational enterprises that engage FDI are found to be more productive than firms which outsource (Bauer C.J. and Langenmayr D., 2013). This would highly suggest on FDI being a more beneficial model than outsourcing if company has enough resources to create FDI in the first place.

As taxation is getting more unified globally, benefits from transfer pricing get smaller. There are other models which would take away the possibility of transfer pricing. These models include splitting profits of multinational enterprises by capital, labor and sales. Reducing these tax benefits would likely make outsourcing more productive for companies, as Egger and Seidel suggest.

Looking through financial departments perspective, it would be possible to either outsource parts of financial department to a foreign location, but it would also be possible to establish a sub-unit in a foreign country. This foreign sub unit could have either all financial departments task centralized there or have decentralized system, leaving some task domestically handled. This way there would be more leverage to adjust profits. Transfer pricing can be very beneficial way of adjusting tax burden as pricing these services can be rather difficult. Because of this, service transfer pricing is closely monitored to avoid illegal usage of it.

4 Comparison of centralized and decentralized accounting

Centralized model has been the old model in business. It has been around much longer than decentralized model and has been seen as a corporate led effective process that gets its benefits from economies of scale. It is run from the corporate center and has been seen to exist only for the corporate center and not for other business units, which it also serves. It also helps to keep the control close to the corporate center, as it can control other units by having centralized services. (Malcolm, 1999)

When considering larger companies, at some point there comes a question about the possibility of decentralizing different parts of the company. Usually the starting point of any company is a central core of the company, but with company acquisitions, natural growing etc. different parts of the companies might become or made decentralized. This is even suggested in some parts, to lessen the responsibilities in higher management. At these points it is wise to consider what is best model for a company and not just let the company drift towards either model. (Miah and Lokman, 1996)

For a company that has offices in different places, centralizing different functions such as accounting, can be very beneficial. Having own accounting for every office can be cost inefficient (Burgess, 2004) and create structural problems in the head office if the systems are not properly synchronized. As all offices have fairly similar needs for accounting, it makes centralizing processes easier. Based on this, similar benefits might be able to achieve with companies, that work in many different industries, but still have fairly similar accounting processes for all the different industries.

In order to have an efficient centralized system, head office needs to understand its role in this structure. Head office should in this instance be more as a service provider than system controller (Jankowski and Gryna, 1996). This way it creates an opportunity for individual units to keep the feeling of being more responsible for their business unit. Centralizing also usually provides better integrated systems and synergies between individual units giving them best practices from different units which can then be utilized in the headquarter.

As with the outsourcing, centralization can also be done partially, if total centralization doesn't seem to fit in the company's profile. Small parts can be left for local managers so they feel secure with their jobs, which would build their confidence on the project. This is tied closely on the idea of keeping business units in feel of responsibility as centralization can make personnel feel less connected and respected inside the company. Systems are centrally led and

main functions are operated centrally. Still decentralizing some of the responsibilities can be good personnel wise.

Moving to centralized model can create problems in the individual business units. Centralizing accounting processes can move control away from on-site managers and create unrest in them. This can lead to many sort of problems. These on-site managers can create resistance towards changing from the normal system to the centralized model. Normal system is here seen as the old way of working. (Hickson et al., 1986)

This resistance comes often from the fear of losing jobs as on-site managers might not be needed in the same way as before. Managers also protect their employees as lay-offs are often a subject during centralization. Even though these are an issue, centralization doesn't directly mean layoffs (Burgess, 2004). This only happens if centralization lessens slack in the workforce. If this is the case, then there is no reason to keep employees, if there is no work for them. But centralization can also give benefits from clearer systems for the company and more consistent and reliable service-level. These problems can hurt the change process and even become more influential factor than financial decisions and the most influential factor on deciding about centralizing. These problems are more common when moving from decentralized to centralized, but can happen vice versa. Personnel issues need to be taken under careful consideration, when thinking about changing from one model to another. There is usually some protectionism in towards keeping old jobs.

4.1 Outside factors

Outside factors can have influence on whether some parts of the company should be centralized or not. Outside factors are not big part when thinking accounting, but as a supporting service inside a company it also is affected by some of these effects.

Normally accounting is a process of low uncertainty. Given the benefits of automation most of the uncertainties come from outside factors like other business units accounting department is in contact with e.g. marketing and sales. These can create uncertainty as customers might not be as reliable as thought and companies need to write down their profits.

Other great outside factor is the similarity of different units and their businesses. This is a big factor in centralizing. If businesses are very similar, centralizing gives big advantages.

Similarities can come in different form. Business model can be very similar so with centralizing, these different units can benefit and learn from each other. This way they can also get economies of scale instead of wasting resources. If they have same customer bases they can get more customer information and this way have better understanding of the customer. Given the technological advantages different units around the globe can also centralize functions. (Velu et al., 2013)

This applies also with accounting units. If different units inside a company work very similarly, they usually have similar accounting structure. In this case, centralizing has big benefits as same persons can work with different units, utilize best practices and divide their time flexibly for each unit. Resources are better utilized this way. Having same customer pool also leans towards centralizing. For accounting, same customer pool makes credit control easier. If one unit spots an unreliable customer, this customer can be monitored in every unit if accounting is centralized. This information will not go forward, if accounting is decentralized to each unit. Accounting can easily be done from one central location as accounting data can be transferred through internet and can be made accessible for all the persons needing the information.

On the other side decentralization might have its benefits also because of the outside factors. Having very differently working units might need different sort of expertise for accounting. In this situation, centralization would not give the same sort of advantages. Personnel would need to learn different systems or there would need to be different employees for different jobs. Having this sort of structure would not differ much from decentralization and would not therefore benefit the company. It could even end up in the situation, where information would be lost as decentralization would give business units time to create more expertise on the spot.

4.2 Cost factors of centralizing

In accounting, having small costs is one of the primary driving forces. Because of this, it is important to evaluate how centralizing affects company's costs. Centralizing is often seen as cost saving procedure, but it does not always work in that way.

One thing that causes higher costs in decentralized systems is cost optimization on unit level instead of company or corporation level. When optimizing on unit level, cost benefits from cross-communication might be forgotten and even competition between units is possible (Gupta and Galloway, 2003). Activity based costing is one way of dealing with some of these sort of problems, but it does not work so well, when units have same processes that compete with each other. In these situations, it is easier of trying to figure how much overlap there is in units. If the overlap is big then often units have been focusing on their own process and costs can be reduced by centralizing these processes (Velu et al. 2013).

Other side of things is forcing the move to centralized system. This may not be the best solution, even if cost savings could be made. Change resistance can cause bigger problems and costs than the saving that would come from small benefits gotten from reorganization (Hickson et al., 1986). If systems vary greatly and have high uncertainty, then mistakes in the centralized system can multiply compared to decentralized system. If this happens it could become costly to have centralized system (Velu et al. 2013). Having decentralized system would lessen the risks that come from high uncertainty and make overall costs more predictable and easier to control. Overall benefits would then be achieved better from the decentralization. For accounting this sort of high uncertainty is not usual, so risks would come more from the change resistance and possible problems coming from the centralization, rather than the uncertainty in accounting processes themselves. Having self-supporting units could still be needed in high uncertainty situations, where decentralized accounting would also be needed. These situations could come e.g. wanting to be able to detach units from the main company or corporation.

4.3 Personnel Aspect

Centralization can also have an effect on the personnel working in the company. Even if centralization can seem like the best option on cost basis, having an impact on the personnel can change the productivity and turn the quantitative calculations from positive to negative. These personnel problems can come from different things.

Centralizing processes can cause loss of motivation in the personnel. Loss of direct control may influence motivation in employees (Burgess, 2007). Having a centralized system can become very bureaucratic and move most of the decision-making to the head office, to

where the systems are centralized. This can affect employees by lowering their motivation and causing loss of productivity. Employees may even go as far as resign and company might lose their key personnel because of this.

This loss of motivation can also happen from fear of losing their jobs. Employees may see centralizing as a way to cut personnel and might start fearing for their jobs. This fear makes them resist centralization and their focus moves away from their jobs. Middle management can also become protective of their own employees and use their influence inside the company, making centralization harder (Hickson et al., 1986).

Other problem might be the expertise level of employees. With centralization, more is expected from the employees. They might need to adapt to different systems and work with many more subunits than before. This can harm their quality of work and might lead up to hiring more employees to cover the lack of resources. This would lead up to more costs and therefore benefits that a company was looking for could be turned into losses, because these new roles could not be handled. This risk comes mostly from customized systems. When these systems are decentralized, every unit can have their own experts. These employees can have a very specified way of doing things. If these systems are tried to centralize and silent information is not taken under consideration, centralization might not work. Good reporting system reduces this sort of risks. (Velu et al., 2013)

Communication can also suffer because of centralization. Longer communication lines need more control and can need more formal communication types (Moch and Morse, 1977). Communication needs to be more precise as the persons between communication lines can be far away from each other, both organizationally and physically. This can create communication errors and might make the communication slower. Having decentralized system often keeps communication channels shorter and more flexible. This makes it easier to talk about concerning issues in more informal way. If communication is more formal, then some issues that might not seem as relevant might be left out and this can cause information loss. Information loss can also come from too informal communication as the knowledge is not documented and becomes silent information. If these employees leave the company, then this silent information might leave with them. In either way, communication need to be observed closely and these things need to be taken under consideration depending on the structure.

4.4 Technological Aspect

The growing interest towards cloud computing has made centralized and real-time accounting more accessible to smaller companies. Having an outside service-provider for the cloud, companies don't have the need to invest in their own network-infrastructure in order to have different parts of their accounting instantly connected to each other. Instead they can use already built software and cloud-services in order to centralize their accounting services.

Cloud service does not need to be about centralizing everything. As cloud has the ability to connect everybody instantly, it can create the possibility to have more of a decentralized model. This is done by having more day-to-day operations on the decentralized locations and have work, that needs more expertise, done centralized as all possible locations don't need their own specialized workforce on-site.

Cloud service still has some of the same issues as does every centralized model. Still the loss of control could become an issue even when leaving more managerial aspects to on-site managers. Cloud service does not help with this issue and can even make it worse, as communication lessens through data sent through web only. Good documentation and ability to trace back processes is an important function in cloud processes. These help finding solution in problem situations.

Security problems that could come from outside cloud-provider are a thing of consideration. Having an outside provider shifts security issues more towards the partner. Problems can also arise from being captivated to the provider too much and not being able to change provider in case of rising cost, bankruptcy, weak service level e.g. Some of these issues can be avoided with an internal cloud system. Security can be more controlled as there can be an intranet for all the communication, so security-level is easier to set on the level the company wants (Zissis and Lekkas, 2012). Bankruptcy risk also goes away as the system is owned by the company itself. Risks that increase are increasing costs and captivation of the system. Once committed to the system, unexpected costs are easy to come by and hard to avoid. Because money invested is often quite large, companies don't want to pull the plug as it would possibly mean even greater money loss. Also being captivated to the system often happens. Once the infrastructure has finally been established, it is kept alive with patches and can come hard to modify to the company's' needs.

Seeing this, cloud computing gives more possibilities for using benefits from centralizing accounting and makes it more flexible for partial centralization giving access to

the system to multiple people and can limit their access depending how centralized system should be. Cloud-computing gives time savings in that all information is quicker to access. It also removes slack as more specific tasks can be centralized for more specialized workforce.

Benefits that cloud gives is access control to the cloud. It can be accessed anywhere and authorization can be made to the level that company needs. Therefore, there is no need for specific hardware. Authentication just needs to be strong enough, so that it can't be bypassed. After making these things secure cloud service itself should be secure (Zissis and Lekkas, 2012). After this the security needs to be handled properly by the users. Even if the cloud service is secure, there is still the issue of user security. This issue is also present without the cloud so it should not be seen as an issue for cloud computing.

4.5 Centralizing administrative processes in multi-locational company

Having a multi-locational company can have its downsides in centralizing administrative processes such as accounting. Cost savings are usually achieved in the long-run but building a working system that has its processes in completely another location can be challenging. Communication from a distant location to the head quarter can be fairly slow, so having real-time systems might not be possible and some effectiveness is missed. Information flow is also harder to keep in as good level as being in same location.

Accounting is from the easier end of these administrative processes as most of its information is in data form and does not need that much communication. Problems will arise if there are things that differ from regular accounting. Then communication is needed with other units and if those units are far away, it might take long time to get the information needed and part of the process will stall or stop completely. This is an issue that need to be considered if a multi-location company wants to centralize their administrative processes.

This becomes even more of a problem if the locations are in different countries. Then there comes same issues as offshoring: how will different culture handle moving job positions away from them. Also how will the communication work if there are different communication methods in different countries. As with offshoring also legal issues come into question on how well will personnel in another country know the legal issues of their offshore-locational sub-

unit. All these things are to be considered in centralizing administrative processes in multi-locational companies.

Companies that have all their processes done in same office don't have this sort of problems. They have no need to divide their processes as all is done under the same roof. Same profit responsibility can be divided to different units, but all should report to same centrally led core-unit. This way communication can be fast and efficient.

Having a decentralized administration for a single location company is not really an option. No benefits can't really be achieved, only excess work. Location should not just be thought in a geographical way. Companies might be close geographically, but because of organization structure, still be far away from each other. This can enhance profit responsibility. It can also be a remain of old structural companies that have then merged.

Meijboom and Obel (2007) made a study about centralization in multi-location and multi-stage operations. Their study focused on internal supply chain management in this sort of structure. Their case study showed a multi-location multi-stage setting a complex one for coordination requirements. Their findings suggested for strong IT-based centralized organization or decentralized system using transferring prices for coordination. In both cases communication and information transfer was in key point. In cases that were closer to perfect information, centralized system would perform better than decentralized system. When moved to more complex decisions and decision with imperfect information more decentralization was needed. This fits in the communication channels and communication effectiveness needed. Decentralized system still needs good negotiations between independent units and head office to get the best results in internal supply chain. Also in the findings were that coordination in more tactical level, in Meijboom and Obel's study in budgeting approach, centralized, company-wide information system, would work better. This would suggest that the level of information can also be factor in centralized or decentralized model.

This study can be used in other internal services, such as accounting. If accounting system can be built in a way that the information flow is effective, information regarding accounting should be close to perfect information in its level, so there would not be that much negative effects of centralization. If different sub-units in different location work very independently, this information flow and even the level of perfect information can decrease in a level in which it would not be feasible to try and use centralized accounting. Thinking accounting in comparison to other internal services, it has quite high level of known

information so most of the cases should lean on centralization in multi-locational company's. Only strong reasons against this should move accounting away from centralization.

Centralized administrative processes can be obtained in a multi-locational company if wanted and information that the head office gets is sufficient enough for them to execute decisions. To test this, simulations of sort are needed, as were done in Meijboom and Obel (2007) study. If information is constantly in-efficient for good solutions, decentralization is a possible step. As is, these are feasible options in centralization.

Centralized administration is clearly a feasible option in centralized company as all the information that can be gathered should be in administrations usage. Administrative processes can be divided to sub-units inside a centralized company, but they still usually work together as one unit.

Decentralized administration in a centralized company can't be seen as feasible model. Attempt to decentralize a centralized company would mainly come from the need to divide units and therefore the decentralization would first happen on organizational level, before thinking decentralizing administrative services. Protecting certain parts of processes would give a possible reason for decentralization, but internal services don't have this sort of information that would need protection as these internal services need to be able to service different parts of company.

Thinking companies on location-level and administration levels and on decentralization/centralization a fourfold table can be used in description of these levels. Both location and administration are divided to centralized and decentralized parts. Table 2 illustrates this model. Three of the four fields are feasible options as decentralized administration in centralized company is not really a viable option in internal services. Centralization of internal services in multi-locational company is dependent on the importance level of information, the completeness of information and how information can be communicated in a given situation.

Table 2: Centralization chart for multi-locational company

		Location	
		Decentralized	Centralized
Administration	Centralized	Simple decision-making Strong IT-system Tactical processes	Only viable option for location wise centralized company Close proximity helps communication
	Decentralized	Difficult decision-making Trust in different locations Differences between business units	Non-viable option

5 Combining outsourcing and centralizing aspects

Outsourcing and centralizing are two different things, but they have some similarities. They also have synergy advantages depending on the issue at hand. I have been going through these two separately, but these can be combined and combining them is getting easier and easier through technology. In the right circumstances thinking these two systems combined can be very useful for companies. On the other hand, combining these with a short term strategy can prove to be difficult and might not bring the wanted benefits one would be going for.

In this section there are four different possibilities for outsourcing and centralizing strategies that are discussed. Based on these I will construct a framework on how to get full benefits of different strategies. This framework will then be used to see from a case example if the case company, Aspo Plc, have come up with the problems on their strategy and whether their decision making is supported by the framework. Case will go through different possibilities for the company and will compare them to their choices.

Framework will show possible example of a model company that could have each sort of system. These systems are not black and white as borders should be seen flexible. In many cases there isn't a thing as complete outsourcing. Most of the time some aspects of the processes do have some parts that can't or are not wanted to be completely moved to outside provider. Same thing can be seen in moving from decentralized to centralized system or vice versa. Movement isn't instant and can leave some flexibility. Still, in order to have a better model, framework handles these as four models. Some of the flexibilities are still discussed in building the framework and throughout the thesis.

5.1 Decentralized and in-house model

Decentralization inside a company was seen as an evolutionary step from centralization. It made cost allocation easier and gave more responsibility to personnel, while easing corporate level overheads. New model motivated personnel and together with technological improvements it raised overall efficiency by lowering costs, improving service level at the same time. (Malcolm, 1999)

Decentralized in-house accounting is a model that is quite usual in large global businesses. It is often a forced model, as global businesses work in different locations and even more, different time zones. This has created the need to have more individual departments inside the company, that work like completely separate companies and have their business done apart from the head office. This model can work both with same sort of departments as well as very different sort of departments. Different sort of departments might not get advantages from centralizing accounting, so this sort of arrangement is better for them. Still having accounting in-house gives them support from the head office and they can synchronize their systems with the head office, giving financial savings in corporate level accounting that is needed.

Departments that have very similar working methods don't necessarily need their own financial department. Having systems close to each other and working separately doesn't get all the advantages that they could have. Duplicate work can be result from this sort of arrangement which lowers corporation-level efficiency. Overall costs could be reduced by combining duplicate work that is done in decentralized units. Combining would be easiest to handle by centralizing these parts under same department.

Decentralized and in-housed model is a common way of arranging accounting for example in hotel chains, but isn't often the most efficient one. Although day-to-day jobs need to be handled on-site, most of the work can be done remote. This enables possibilities for changing to more center focused systems, without changing anything on the service side of hotels. (Burgess, 2004) Other multi-locational companies could also benefit from centralized administration in general.

Decentralization gets major benefits from modern technology e.g. cloud services. Having cloud service within the company enables more possibilities in having decentralized accounting. Everybody can get the information fast on hand, head office can monitor decentralized units through the cloud being the macro manager and leaving micro level work decentralized. This lessens the workload on head office, but in order to work, needs to have good enough guarantee level in order to work without extra cost (Molnar & Schechter, 2010). Security risks stay low and captivation to other companies doesn't come as a risk.

For these reasons companies that work globally benefit from decentralized and in-house accounting. It brings some extra costs in duplicate work, but also helps in working through time zones. In-house accounting gives security and is easier to handle in this sort of situation as outsourcing a globally operating decentralized system would prove to be a very difficult task to make efficiently functional.

5.2 Decentralized and outsourced model

Decentralized and outsourced model is hardest to coordinate as a combined corporation. Having decentralized system already creates pressure for the head office to combine all accounting together and constantly work with decentralized departments. Independent outsourcing makes this controlling side even more difficult. Supply chains will grow and there will be multiple partners that are responsible for arranging accounting.

Having this sort of model would lead to a loose connection between different parts of the company which could lead towards different parts being completely separate from each other and making the head office only a holding company, that owns its parts, but doesn't have any straight influence on them. This is a possible model, but it doesn't utilize any benefits that could be brought from within the company. All units end up working separate from each other and might even end up competing with each other, lowering their overall profit.

Company that could use this sort of model would be a holding company that doesn't take much part on the business decisions that its sub companies do. It would be more like a loose collaboration that would give all decision-making to its sub companies. Even in this situation, many sub companies could end up in in-house accounting. Therefore, this model would often end up as a hybrid that would not be fully outsourced. Decisions of outsourcing would be on ground-level and no scale benefits would be achieved. Benefit would only be to have freedom on sub companies and trusting in those to make the most efficient decision in having bids for best outsourcee. Then the task for parent company would become to find the best companies to own and finding best points to sell these companies away to gain most profit from corporate acquisitions. Outsourcing parts of high expertise to a different outsourcee could be an option, but it would be an unlikely option as there is also a possibility to in-house these parts.

5.3 Centralized and in-house model

This is probably the most common structure of accounting in medium sized companies. Company has its own financial department which handles company's accounting processes. This sort of centralized model is easy to control, doesn't take too many employees and helps to keep track of all the financial aspects of the company relatively easy and reliably as all the data is handled in same place. This sort of structure works well, when the company has relatively straight-forward processes, all its business is relatively similar and company size isn't too big.

The system has benefits in having a secure system that is easy to handle as long as the financial department is well enough educated and company has invested enough to their IT-systems. Strong IT-system is key aspects in centralizing. Tactical issues don't come in so much as accounting or other administrative services do not have such a tactical impact. Accounting should have easy enough decision-making to be able to handle situations in an in-housed system. It might not be the most cost efficient, but having key personnel inside the house gives companies more control and they can maintain a stable service-level without the fear of its partners failing on that part of the system.

Shared service center (SSC) is a model of centralized in-housing (Fisher, 1998). SSC is an individual unit within the company, that works for the other parts of the company as an inside service provider. This way it can focus on its core competence. These sort of systems are common when it comes to accounting or IT, for example (King & Leong, 1998). Accounting gets its benefits from large scales and IT from its level of expertise. With IT, combining expertise all over the company, instead of having each department have their own IT worker, gives better service level for all as these can combine skills and then provide this knowledge forward in the company.

Where SSC differs from the normal centralized model is working as a cohesive unit to improve its area of expertise, finding best practices and being profit responsible on its own. Normal centralizing just piles up the workload to get economies of scale. SSCs are run with a different mindset. Rather than being a financial department inside the company, SSC is an individual company inside the company and run according to that. Its main function is to provide good service for its customers (other departments) with low costs. (Malcolm, 1999)

In a degree, SSC is a developed system of centralized in-house accounting. It is much about the same thing but different attitude towards same structure and different focus-points.

This is enabled through technological advantages. It was brought in by ERP systems, faster communication and better workflow (Malcolm, 1999). Even if SSC is more service-oriented, its main advantage is still seen as saving costs. Being like a third-party vendor gives SSC also more incentive to work more efficiently, even though they are usually 100 percent owned by parent company. Also even if accounting might not be company's core competence, in SSC it is core competence for this unit (Schulz and Brenner, 2010). SSC can also be an interorganizational unit created together by different companies, often gathering their best practices together in their non-core activities in order to get mutual cost savings. This benefits them all as they are not competing with each other on the aspect on for which they are creating the SSC (Schulz and Brenner, 2010).

5.4 Centralized and outsourced model

Other common structure for small businesses is having accounting centralized and outsourced. This releases resources from non-core activities, such as accounting, to company's core-activities. Having an outside partner for company's accounting activities gives them few advantages. They don't need to spend money on building their own system, instead they can rely on the outsourcee. Having spent money on accounting could be an issue if the money spent could be allocated more effectively elsewhere or if this would hinder company's growth. Secondly, they get a reliable system, as having bigger partners, that have knowledge on accounting, can be presumed reliable or at least to be as reliable as having an own built-in system.

Downside on outsourced centralized model is possible problems with the outsourcee. Having full commitment with the outsourcee can prove to be difficult after the work has been started. Problems can come from different issues: trust issues, growing costs, incompatible systems. (Roy and Sivakumar, 2011) Correcting this can take lot of small company's resources so spending enough time and resources in choosing a right partner is essentially important. Constant changes in outsourcee will increase fixed cost in the form of initial partnering costs.

Having a centralized system can also be difficult, if the company wants to grow in many different directions. If different things are needed from the financial department, having a

centralized system might prove to be too stiff and not able to adapt in fast changes. If the centralized system is well established, it has better chances in holding together in fast changes.

Centralized system gives a simple channel to use on outsourcing. Centrally led accounting system is much easier to outsource than decentralized simply because having simpler information flow. All systems can be moved from in-house to out-house in a synchronized move. If the system was decentralized, all systems would need to be synchronized before moving them to an outsourcee. Either that, or the outsourcee would have to synchronize then, which would increase costs. Outsourcee would also have less control of the outsourcing process. For these reasons accounting should in almost all cases be centralized if it is wanted to be outsourced. Only exceptions would be a loose corporation that was talked about in section 5.2.

5.5 Internal service model framework

Given all this information about centralization/decentralization and in-housing/outsourcing we can form a matrix (table 3) on what sort of combination works in which situation. These blocks are non-exclusive and often companies may hover between lines and have partial structure from one block and still have some effects from other blocks. This framework is to provide a general view on what kind of model benefits company most. All this starts from defining company's strategy and understanding what they are and where they are aiming. Having this information company should think their model as a whole rather than isolating these two aspects. Framework is to support decision making on what kind of combination should a company have given their characteristics and what they are aiming for in their administrative services. With this information they can evaluate their model and make possible shifts if those are needed.

Framework is based on accounting theory but can be applied to other administrative services as well. All of these base their tasks in working inside company and for other divisions. Different need for information will be needed in different services, but as with centralizing administrative processes, this information need is an influential factor in the framework. Because this framework can be broader it is named administrative service framework rather than accounting service framework.

Table 3: Theoretical administrative service framework for outsourcing and centralizing strategy

	In-house	Outsourced
Centralized	<p>Center-focused corporate company</p> <p>+Having full control of systems +Secure system and non-binding other parties +Easy to control</p> <p>-cost-in-efficient -non-motivating for distant units</p>	<p>Core-competence focused company</p> <p>+Gives resources for core business expertise +Reliable accounting procedure +Cost savings</p> <p>-Hidden costs -Bind to outsourcee -Outsourcee reliability risk</p>
Decentralized	<p>Multi-locational company</p> <p>+Giving freedom to different units +Providing compatible systems</p> <p>-In-efficient -Unnecessary workforce</p>	<p>Holding corporation</p> <p>+Free development for all units +non-restrictive</p> <p>-No synergies inside company</p>

Framework is to illustrate what kind of things should be pursuit in different combinations and what to look out for. It also demonstrates a type of company that could benefit having their accounting functions arranged with the given combination. This is to give a clear simple idea, of how to combine these two in a strategic process. Outsourcing alone is a big decision and moving from one point to another can also very demanding. Therefore, understanding the starting point gives more advantages in executing the change process.

As it can be seen from the matrix (table 3) all options have potential benefits and are viable options. Finding a right option for a company is the key. Some of these options tend to be favored more because of the technological advancements that have come after the 2000's and have become more effective. These are favored on the rise of outsourcing. Outsourcing often gives clear benefits to small companies as they might not have the resources to have own accountant(s) or big financial departments. As for the larger companies that have already established a secure financial department all options can be beneficial.

Matrix shows why certain types are good for different companies. These company types are put as an example for each quadrant to give more understanding about the quadrant type. Having a small core-competence focused company needs to allocate its resources for the right

targets. Accounting is not something they have to have, so it can be outsourced and as a small company, decentralizing don't give anything.

In-house options are viable, once company is large enough to support own financial department. The SSC has brought back the classical model of centralized accounting, which was seen to be somewhat replaced in the literature by the decentralized in-house model. This has brought more efficient and new thinking to centralized accounting models same way decentralized model was seen as the new thing after centralization. (Malcolm, 1999)

Even though SSC is an in-house system, it can be built to have features of outsourced model. Building an SSC together with other companies and creating a new company to handle all accounting can be seen as in-house or outsourced system. On one hand company owns part of the company that handles its accounting but on the other hand it is a new company, whose priority is to provide best service to all partners equally, so one company does not have control of the new SSC. Therefore, SSC model can be seen on the both sides. This is an illustration on how lines are not as straightforward as could be thought. Basic idea stays still the same. This just gives more depth on the decision making.

This framework will be used to compare how the case company, Aspo Plc, fares in the light of theory. I will be assessing its original state and phases through the changes and analyzing what could have been done differently and how the current state seems. Based on this there can be made assumptions of the future for the company and made more general reflections on how accounting processes could be made on these types of companies.

On the theoretical side, this framework gives an answer for the research question on how to best utilize centralizing and outsourcing strategies. Four core model are built here and their upsides and downsides lifted up and explained here. Table 3 is to sum up these models and to name a known company-type that can and should use each sort of combination. As is obvious, different quadrants have same sort of benefits as they share much of their qualities with one other quadrant. Key points in table 3 are focused on things that are more unique in that section or have more impact because of the combination at hand.

This theoretical part will be the basis of the empirical part of the thesis. Empirical part will focus on outsourcing and centralization as this was the heading of the case company Aspo. It will also deal with other parts as the process of finding the best model included few steps to find this solution. Empirical part will also deal with decision making to explain some of the choices and how those can be seen as best practices even if company form might in some

instances suggest otherwise. This decision making process is explained more detailed in chapter 7.3. It is about the type of decision making problem and explains why rushing into centralized and outsourced model isn't always possible, even though it gives most advantages in many cases.

5.6 Transition between models

It's important to understand the segment in which a company is and it is also important to understand the possibilities of moving from segments to another. This way in order to develop accounting processes, companies can better determine their pathing from current situation to a wanted situation. These paths can be in any direction on the framework and from any segment to another, but there would seem to be certain aspects that would lead companies to move in a certain way, in order to have smooth and efficient change in structure.

Figures 1 and 2 show the main movement of how companies switch in these dimensions. In figure 1, the movement direction is from decentralized in-house model into more centralized and possibly outsourced model. Figure 2 has the opposite movement directions in moving away from outsourced and centralized into in-housed and decentralized model.

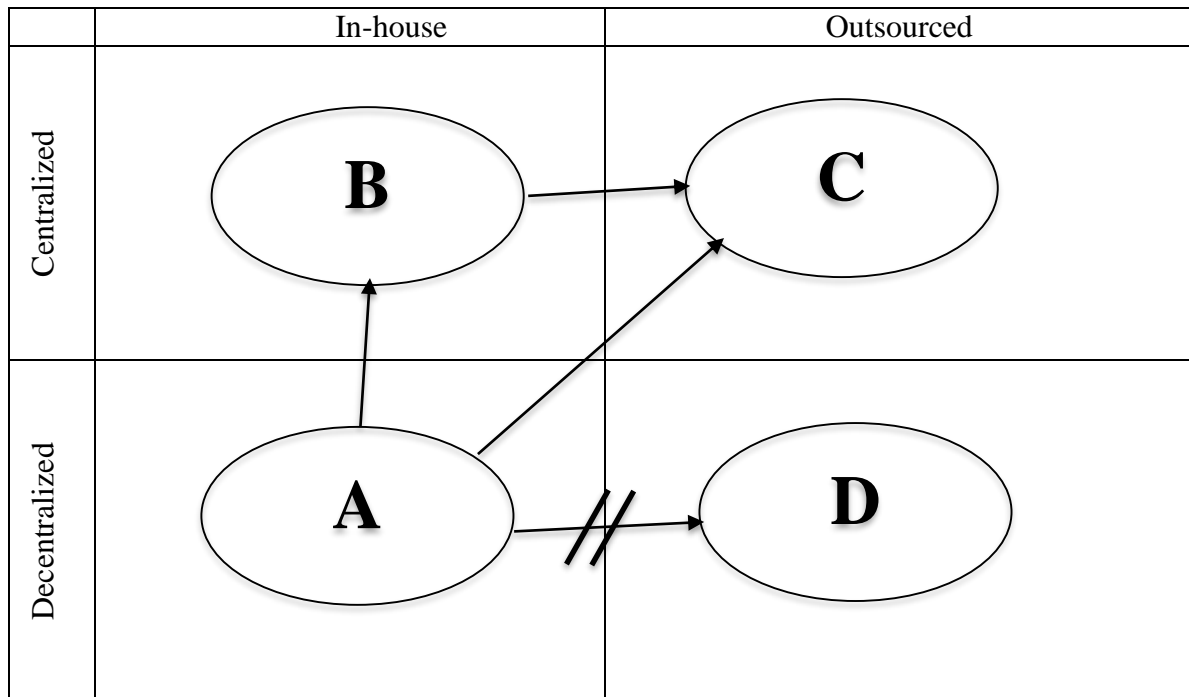


Figure 1. Movements from decentralized and in-housed administration service.

Figure 1 shows the expected movement pattern in arrows from different points into next one. These points are marked as A, B, C and D. Usual movements are from A to B or from A to C either straight or by first moving to B and from there moving into C. Movement to option D is not that supported as it would distribute different administrative jobs even further from the head office. Therefore, movement from A to D is ruled out in this figure.

If company wants to move from A to C, then it is wiser to first group all decentralized services together in-house and after that outsource. Otherwise that task would be left to the outsourcee and as they have less knowledge about the company, they most probably will have harder time in combining different units together. Gospel and Sako (2010) have studied same sort of development regarding human resource management and shared service centers. They saw the movement into decentralized outsourcing a possibility, but saw disadvantages similar to leaving the work to the outsourcee and having a weaker position in transformation process. Same problems could happen in transformation from A to C. Because of these findings I have eliminated movement from A to D. Best movement would be either straight from A to C, though risky or by moving first from A to B and then from B to C. This route costs more as company has to centralize their functions first and move to outsourcing after that. Advantage is that unexpected problems are easier to handle as they don't all come at the same time. These

movements don't have to start from point A. Movement from B to C is also valid as is just moving from A to B. These have to be evaluated by where company wants to go.

Reasons behind these changes should come from the administrative model framework. If company's lines of businesses have synergies between each other, they can move administrative services into more centralized model by uniting decentralized administrative services under the same roof. If these are also non-core services, those can be moved to an outsourcee. If these services are greatly divided, company must assess whether it is possible to centralize or if it needs to first start with other options and bring units closer before centralizing. Also personnel aspect in change is very important. Relocating tasks often makes some people obsolete. Therefore, relocation is hard to assure to people in decentralized location. They can be against it and if they are part of making the decision of change, they might prevent this change from happening. Same goes with outsourcing. Outsourcing tasks will make positions obsolete inside the company, so these persons are often against it. In these situations, the decision-maker should not be too attached to these services, even though, it might not be possible. This is because personnel that work within the services have best knowledge about it.

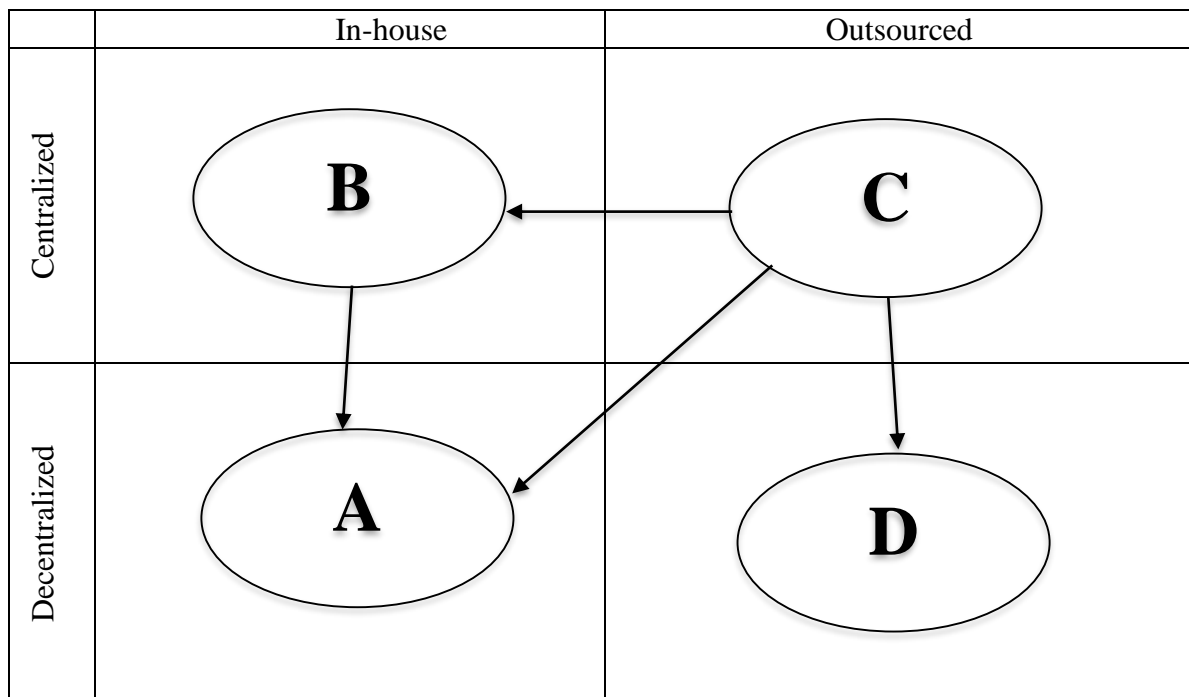


Figure 2. Movements from centralized and outsourced administration service.

Second figure illustrates movement into different direction. Here the main starting point is outsourced and centralized system. As is with the first figure, movement doesn't have to start here and can stop in a wanted point. Movement to this direction differs a bit on how it can be done. When moving away from outsourced and centralized system, all directions are possible, though move to in-house seems most logical and likely. Whether it is to centralized or decentralized depends on organization.

If company grows in many directions that don't share similarities between each other, decentralized model will come handy for the company. If reason for moving is trust or cost issues, then centralized in-house model is the most reasonable step. More complex decision-making can also force a move to in-housed service. Moving from C to A doesn't need temporary transition to B as building a centralized in-house system would not give benefits regarding the next movement as decentralized system can be built individually for each unit. Move through centralized in-house process would only elevate costs.

Move in only decentralization axis is an unlikely step, but can be seen possible. If service processes become too complex, some elements might be better to move to an expert outsourcee. Often better option would be to take these complex processes in-house, but there could be a possibility to decentralized outsourcing. In-house should have previous knowledge about the processes so it would be easier to implement those in-house.

6 Empirical methods

Empirical part of the thesis is done as a descriptive case study. It is a post-analysis of the case. Main material for the case are company's reports and interviews done in the company. Advantage in post-analysis is that we can see all the problems company faced during different parts of the change. We can then evaluate what changes could have been made and can make a generalization of how to avoid problems faced. We'll also be able to suggest alternative possibilities as the all continuing process.

Case will go through an accounting process change in a medium sized publicly listed company in Finland. Company's accounting models had many variations that have connections to different possibilities listed in the theory section. It gives good insight on how it's possible to organize accounting systems, where the focus points should be and how to manage the changes. It also has many decision making problematics that also come up in almost all the outsourcing plans and pretty much in all changes in companies.

Case study has its benefits in this sort of study. It has clear focus on one company and can get insightful information to the core. Questionnaire study would be an option for the case study, but it would give more general knowledge instead of being able to see, how accounting and changes to it are managed. Also finding companies that have went through this sort of process changes could be hard or they might not have thought about the structure as a whole. Therefore, case study provides more useful information.

Case study will go through the process of changes inside the financial department in Aspo Plc during roughly a 6-7 year period. Case will reflect these changes within the company by comparing how it reflects on the framework.

With the case study, an empirical framework will help to generalize the case. By comparing the case with the framework and how it fits on it, we can achieve more detailed information and also bring framework closer to the real business life. Case study also benefits the company itself that the case is done from. (Yin, 2004)

In this particular case, more descriptive approach has been taken. There are few reasons for this approach. First off, this is a one-time decision making, so even if the quantitative side of the decision is heavily weighted, there is also qualitative issues that have an effect. Because the quantitative aspects are more open, I have focused on the qualitative aspects, as they give more to analyze.

Analyzing the case in a chronological order gives better chance to compare company state with the framework. As the company shifts through different positions, it goes through different positions in the framework as well. This way analysis from company's state can be made to how well it fits on a typical company that is on the same state in the framework. Following the change process is therefore a great benefit (Yin, 2004).

Some restrictive things should also be taken into consideration when using a case study. Case can give general information that work in a more universal situation, but still it is only one study. It should not be compared literally to each case that is close to it. All cases are individual processes and descriptions of one specific case. Therefore, case findings can be seen as guidelines how things can be handled and how they usually bring good results. What should not be done is generalize the whole case and use it as the one true answer. This kind of approach would lead to skewed research in the future. (Gomm et al., 2000)

Cases give special information what questionnaire study would lack. There can be more broad range of interpretation and more possibilities to the general field of study (Gomm et al., 2000). From the results of the case study, a wider questionnaire study can be formed to see, if the new viewpoints fit with same sort of situations in different firms. As case gives special information it can also give more "researcher's look" to the situation. As the company itself evaluates their situation on a personal business point of view. This may or may not be influenced by academic research. In this way new points of views can be found even to the things company thinks they have covered throughout. Also finding problems on the system are easier to describe as there isn't that close of a relationship with the company and no dependence on the company (Gomm et al., 2000).

With these benefits and defects in mind, the case study was found to be the best option for this study. My effort is to use the case study benefits on the study and give new and special information that would otherwise be difficult to find. Also expanding the theoretical framework is would have been a possibility, if enough new information was found. Otherwise case is mainly focusing on seeing framework's fitting on this kind of conglomerate company. To find this, I will analyze different big occasions on the decision process of the company's progress. From this, best options are easier to find. Analysis compared with the framework is done in the chronological ordering of the case and separately.

7 Case Aspo Plc

The studied case is reorganization of Aspo Plc's financial departments' structures. More specifically having focus on organizing its accounting systems. This case's timespan is roughly 6-7 years given the whole process. First part of this process focuses mostly on decentralized versus centralized models and outsourcing is more influential thing in the latter parts of the process. Decision process is explained in the case as well, even though the focus is on centralization and outsourcing. Reason for the decision process being also described in the case is, that given a certain decision making course, it has an impact on the best outsourcing and centralization strategy as well. If the leadership of the change supports a certain model, it will close some possible outcomes no matter how good these outcomes could be for the firm. Therefore, it is needed to have the decision making process described quite detailed, even if it might seem not so important in choosing the best alternative for the company.

First part of this chapter focuses on the background of Aspo Plc and the companies it owns. This gives the view of what kind of company is in question and what advantages or disadvantages it has, given its business structure. This effects strongly on the best practices that can be recommended for the company, as was seen when forming the framework on the theoretical part of this thesis.

Next part gives background for the actual case. Starting point for the case was a merging situation, which often gives possibilities for a change (Mintzberg, 1976). This merging ended up being just a starting point, but had big effect on the decision process and on the opportunities it created much later. It is dealt as a possible solution for organizing financial department as there was a decision to be made already in this part of the case, even though it continued to much later stages.

Third part is about the decision-making process in this particular case. It describes more on what kind of decision this accounting structure change was and what key-points were on hand and how they were handled and how those could have been addressed. This tells about decision making processes in general as well. These things affect where a company ends, or should end, in the framework model. For this reason, it is important to include decision making in this thesis. Not only is it a big part of reorganization, but how the decision is handled can also effect the best outcome of the process. Being able to make right decisions in the first place can save valuable time and resources, as could have been in this case too.

Next chapter focuses mainly on the accounting process in Aspo Plc in general: how it has been, what changes were made to it and what kind of model would best fit for Aspo. This part focuses on finding out how different quarters of the framework could fit for Aspo's accounting, how accounting was constructed in Aspo and what could be the best solution in the long run. All these reflect on the theoretical part and focus on showing not only the best solution at the end, but also how to go towards the best solution.

Last part is a comparison of Aspo's model and the framework. It will go through all the possible choices and gives an opinion of the best way for Aspo, based on the framework. It will also combine different strategies from throughout the decision process. These strategies might have been good for the certain parts of this change process, but are not fitting in the end, given all the external development in technology and the tightened competition on the industries Aspo is on.

7.1 Background of the organization

Aspo Plc is a conglomerate company that is listed in the OMX Nordic market. It is a medium sized public limited company with a turnover of 445,8M€ (2015). Under Aspo corporation there are four companies that work in different industries. Telko Oy works in plastic and chemical industry, Leipurin Oy works in baking and food industry, Kaukomarkkinat Oy works in electronic industry and ESL shipping works in marine raw material shipping. All these companies work mostly in B2B markets. Aspo's main goal is to be the leader in all the industries it is involved.

One key aspect of Aspo's strategy is being able to release or to purchase different companies easily. This comes from Aspo striving to be the industry-leader and if this proves to be too difficult or if the industry is not seen fit for the parent company's agenda, there should be a possibility to detach from the industry. One way of doing this is to have light administration. Light administration makes selling these business units as a whole to an existing company easier. There would not come overlapping administrations as the buyer presumably already has a working administration. In merge situation strong administration can work both ways: either give stability in otherwise unstable situation or make merging harder as there could be two strong administrations and other one often has to yield.

Of the four companies, Telko, Leipurin and Kaukomarkkinat work in very similar ways. All companies are mostly importers or retailers that distribute different goods to their B2B customers. They have services incorporated in the retail business, but most of the business is retail. ESL shipping is more service orientated company. It is the leading dry bulk sea transport company in the Baltic area. Working in the supply industry, it does not have as good synergies inside the company as the three other companies do. This makes it a different kind of focus point in order for systems to run as they should. Service orientation often requires more constant observation than importing in situations, where the importation is quite stable and most of the fluctuations comes from import variation that happens on the global market. This variation must of course be handled, but it will affect all these companies, so the focus on global markets can be done more co-operatively.

Comparing the sizes, Telko is by far the largest of these companies. It produces 48 percent of the total net sales. Next comes Leipurin with 28 percent then ESL Shipping with 18 percent and Kaukomarkkinat has 7 percent share of net sales. As can be seen, the companies are very different in sizes so this gives other companies more weight inside the company. Net sales, as important as it is, isn't the only factor when weighting the importance of the companies. Growth potential for these companies are also important. Depending on the eastern markets these growth potentials can vary vastly. Leipurin has shown growth potential in eastern markets, even though it has not materialized yet because of the EU sanctions targeted to Russia that started in 2014.

What shows about the industries these companies are working on, are their net profit margins. The three retail companies have quite similar net profit margins between 4,4-0,3% (2014). ESL Shipping however has much larger net profit margin of 18,8% (2014). Because of large sales ESL Shipping's profits fluctuate in different years, but even on the previous years it has had larger net profit margins than other companies, 9,8% in 2013, 5,1% in 2012 and 11,3% in 2011. Retailers usually have lower margins and higher turnover. Service companies on the other hand focus more on the customers' needs and can get better net profit margins. This gives different focus on the companies themselves. Telko, Leipurin and Kaukomarkkinat are more focused on having most sales done and trying to run through as much goods as possible as all of their products have closely the same profit margins. ESL Shipping needs to have more focus on customer care and evaluate their customers not only by the net sales, but also more on their profitability margins as these could end up tying unnecessary capital without

having as good profit margin. With the other companies, tied capital is more of a necessary evil.

This gives a view of what kind of industries Aspo corporation works on through their sub companies. These industry similarities and dissimilarities have also effects on accounting processes inside Aspo, as they can utilize synergies differently. Telko, Leipurin and Kaukomarkkinat being more close to each other are able to utilize their similarities better than ESL Shipping. Also corporate structure has its effect on accounting and financial departments as a whole and how much they can and want to work with each other. Corporation derived from the top has its effects on how it wants to be able to monitor these companies as completely different sub-units. Company comparison does not motivate to share information if there isn't a measurable incentive to do so. This hurts corporation as a whole as they don't utilize scale benefits inside the corporation.

7.2 Case background

Not long before the start of Aspo's financial department re-organization, Aspo had quite different corporate structure. It was smaller corporation with less uniform structures. Starting point for the change process for Aspo's financial departments and accounting processes came from the purchase of Kauko-Telko Ltd. This purchase was very big investment for Aspo as it doubled Aspo Corporation's size. As part of the purchase, the two companies needed to combine their administrations. Before the purchase Kauko-Telko had reorganized their finance administration. Before reorganizing, Kauko-Telko had had their finance processes in industry-levels. This meant, that when doing a corporation-wide accounting, all industry-level accounting needed to be combined. This method was seen as inefficient and Kauko-Telko moved towards continuous process so that the whole accounting and finance would flow through whole process as one.

Aspo on the other hand had its administrations almost completely in the companies it owned, which at the time were ESL shipping, Autotank and Aspokem (figure 1). Their thought process was that this way individual companies would self-monitor their financial departments expenses and keep those as low as possible. As all companies were profit responsible to the parent company they would cut their cost to minimum. This decentralized model had been

working well in Aspo. Internal control kept the financial costs fairly low. Some savings could have been found by trying activity-based costing. This could have created more clear cost-based evaluation for administration cost in each company as some processes overlapped and there might have been hidden costs. These hidden cost came from parent company level work, of whose allocation was not as clear without clear organization structure. On the point of purchase the views of Aspo and Kauko-Telko were strongly contradicting compared to each other.

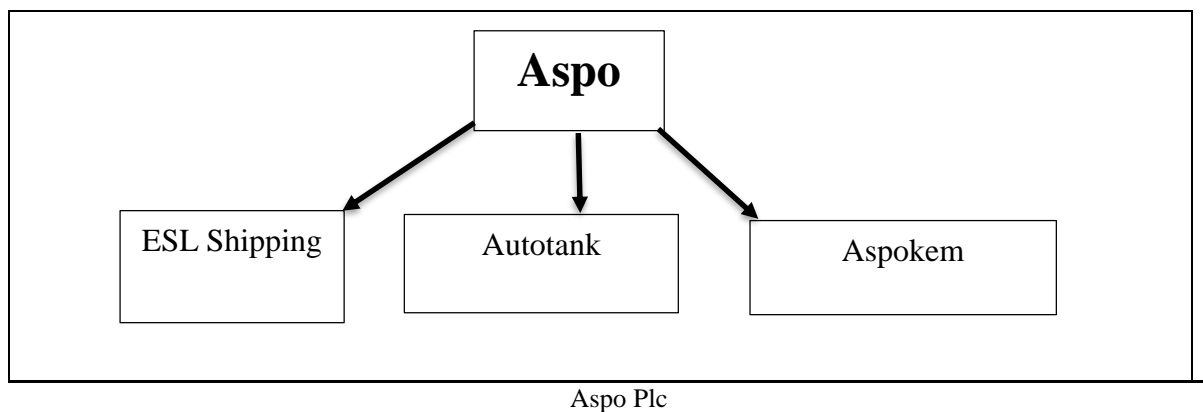


Figure 3. Organisation chart of Aspo before purchase.

At the time of the purchase there was much talk about how the administration and finance should be organized. Both sides of course defended their methods and were convinced that their method was better than the other. Both sides had good arguments to back them up. Aspo had the advantage of having their structures ready and having an approved method inside the company. Kauko-Telko's method had the advantage of financial savings and centralized processes. Expected savings would be quite easily achieved. Also if the change were to be made in Aspo sometime in the near future, this sort of change would be more easy to make as part of the big acquisition. The company would be in the hands of big changes anyway.

In the end after lots of conversations and workshops the decision was made to stick with the decentralized model and have separated administration and finance for all industries. Eventually four different companies were formed: Kaukomarkkinat, which continued electronic import, that was part of Kauko-Telko before the purchase. Telko, which combined Aspokem and industrial material side of Kauko-Telko. ESL Shipping stayed as it was before the acquisition. Leipurin, which had been part of Kauko-Telko as an individual unit, became its own company under Aspo. At the same time Autotank was sold away from Aspo and so

four different companies remained in the Aspo corporation. This company-chart after the acquisition is pictured in figure 2.

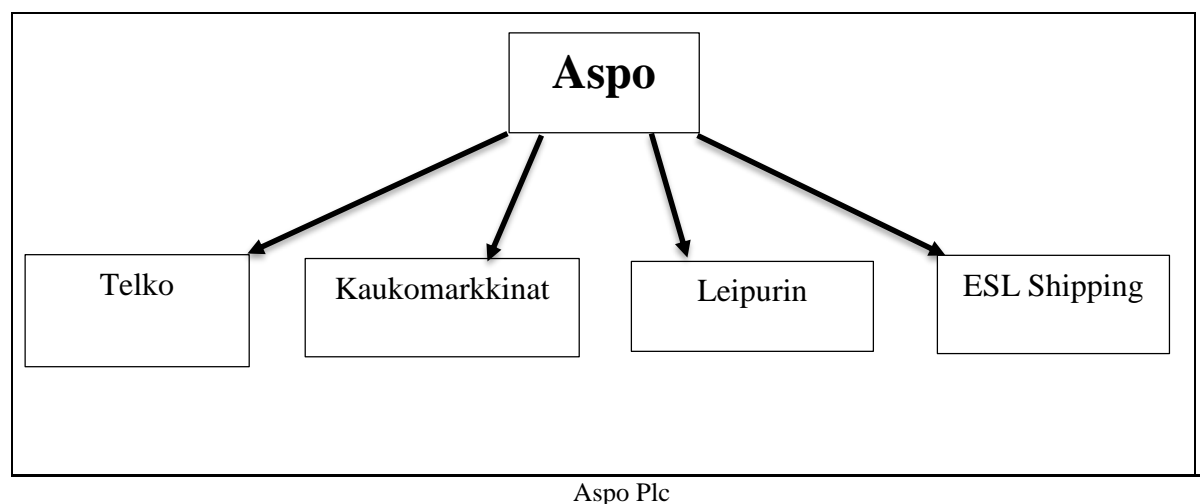


Figure 4. Organisation chart of Aspo after purchase.

This formation Strengthened Aspo’s leadership model of having strong administrations in each of its company. Each company had own board and own supportive functions as they were four different companies. Aspo influenced on big decisions in every company and monitored them, but otherwise these companies worked on their own. This left the administration of the whole company quite large.

Even though this could have seemed like an ending to this decision process it was actually only the first surface point of a strategic decision making process that would eventually take place over the course of many years. These sort of first surfaces are typical in large decisions. Even if a disapproval has been given to a certain alternative, this does not mean that it could not come up again (Hickson et al. 1986). These sort of gestation periods are sometimes needed as some decisions might seem too hard or unwanted at first. With a gestation period the alternative can develop and might become more beneficial through other changes that were not present before (Hickson et al. 1986).

At the start of the case Aspo relied on the decentralized and in-housed accounting system mainly because of old habits, but that wasn’t the whole truth. Kauko-Telko had quite different system in having more centralized accounting systems (table 4). Personnel effects supported the decision to stick with Aspo’s old system. It was also proven to work in keeping costs inside business units fairly low. Also change costs from old to new were hard to estimate,

as there would be no knowledge of how the new system would be adapted and if it would work in the future. In this way, the multi-location company profile fits somewhat to Aspo. Even though location of all companies was close to each other, they were treated as separate business units that wanted to make best possible profit. Possibility of centralizing was quite obvious, but thinking Aspo as a profile example of decentralized in-house company Aspo fitted quite well to it.

Table 4: Aspo's and Kauko-Telko's positioning in the framework in 2008

	In-house	Outsourced
Centralized	<div style="border: 1px solid black; padding: 10px; width: fit-content; margin: 0 auto;"> Kauko-Telko </div>	
Decentralized	<div style="border: 1px solid black; padding: 10px; width: fit-content; margin: 0 auto;"> Aspo </div>	

7.3 Identifying the type of decision making problem

In an interview conducted with the CFO of Aspo some key aspects from the decision making problems origins could be identified. First, the case at hand was mostly an opportunity decision. This opportunity decision comes from Mintzberg's (1976) categorization of strategic decisions based on their starting point. These categories are: opportunity, problem and crisis. Some decisions can be between categories if they have characteristics from two categories. Opportunity decisions are situations where there is no threat for the company, but there is a chance to perform even better. Problem decisions have some difficulties in the company, but nothing catastrophic. Crisis decisions need imminent reaction as the company is usually in dire

need of immediate action to e.g. prevent bankruptcy (Mintzberg et al. 1976). Problem decisions are seen as most common situations as crisis situations are often “once in a lifetime” –decisions for a company and opportunity decisions might disrupt the status quo of the company and aren’t that wanted. Therefore, having an opportunity decision is interesting as itself.

I have categorized this decision as an opportunity decision because there was nothing particularly wrong with the current finance and accounting department. It worked fine and wasn’t jeopardizing the profits of the company. There wasn’t that much interest in the management to change the system as it could be an unnecessary risk even if savings were presented by the supporting side as instant and as a sure thing. Therefore, it fills the characteristics by being a decision that can make the company perform better, but doesn’t answer to a specific problem at hand, that the company is struggling.

What can be seen more of a crisis decision was the first time the possibility of the different kind of financial department structure emerged. This crisis decision was the purchase of Kauko-Telko. Big decisions needed to be made during that time and financial departments arrangement was one of those. Because of mostly neutral to negative attitude towards different kind of model it got a disapproval at the time, but still wasn’t deleted completely. This spot can be identified as the start of the gestation time.

Gestation period in this instance means a time-span in the decision making process that doesn’t seem to move the decision forward, but can actually be very important in making the correct decision. This gestation period gives time to influence people’s opinions and build ground for the choice in hand. Gestation influences on the decision that is to be made. It is possible that in the time of gestation, this decision at hand is found to be a negative one and it dwindles away. So gestation can also eliminate bad options. Rushing into a decision isn’t always the right option, although in crisis situations, it is often the only option as crisis needs imminent decisions. Otherwise business could suffer severely.

As gestation period is used to influence people it already has the incentive of what should be done inside the company. Therefore, gestation should not be mixed up with deciding from the options at hand. Figuring out the wanted decision is part of the normal routine and can also take time. Difference is that when figuring out the wanted outcome, company is working to get into the right option, rather than waiting for the correct time to execute a decision. As mentioned before, even the best alternative can end up in bad results, if it is executed badly, in a wrong environment or at the wrong time. This can ruin the chance of

getting the best result or it can make the process of getting in to the best result far longer than it could have been.

In Aspo's case, the gestation period was inevitable. Strong leadership in Aspo had the incentive of keeping things decentralized in the financial departments. There was even the possibility of leaving things be, as there was no clear need that time to optimize financial departments and accounting systems. In the boards perspective, system was working well and should be working well in the future. For this reason, giving time for the middle management to assess the ways of the old Kauko-Telko compared to the ways of Aspo, was needed. This period proved to be very important in executing a change in the company.

As the culture was more for decentralized accounting systems, middle management and CEO's of the individual sub companies were the possible frontrunners, that could push Aspo more towards more centralized system, which would fit better in a system were all were working under the same roof. This kind of approach proved to be successful.

Other important factor regarding this case and decision making is the decision making strategies used. Whether seen as a strategic decision or not, decision makings still follow same patterns. When it comes to this sort of decision, there is no option that is superior to all other options. There are always some drawbacks when comparing to other options. Because of this, no straightforward formula can be made, which would automatically give the best possible answer to the problem at hand. Options need to be narrowed to a few and based on the information at hand, then decided what option seems to be the best one. Important factor is also that these decisions are non-repetitive and have long-term effects (Hickson et al. 1986). These things effect the optimal structure along with the original point of the company. Some of the decision making factors could even increase risks too much, even if other decision might be slightly more profitable, if it is achieved.

In this case, risks of changing the system was seen too great, at first, so unnecessary risks were avoided. This is a rational choice as it ensures continuity in financial departments and avoids lengthy change processes that would be effected by law restrictions, labor unions and such. So keeping the old system can't be judged as a wrong decision, just an inefficient decision, based on what the framework created in the theoretical part and by analysis of some of the experts that were working with Aspo.

7.4 Description of the accounting process before reorganization

Structure of the accounting process inside Aspo was very company focused. All companies had their own employees for financial administration and worked for their own company. Even if the jobs were decentralized for every company, the work was done physically very close to each other. All employees for these financial administrations worked mainly in the same building. Some companies had different accounting software, so working closely with each other was made harder because of different technology systems. On corporate level, financial accounting was centralized.

To use one company, Leipurin Ltd, as an example for their bookkeeping processes this is what the process looked like. Basic bookkeeping was done inside the company by around 4-5 people. Ledger was done mainly inside each company. As the ledger worked with IT-system, all paper invoices had to be scanned to the system. This part was mainly done by an outsource company, although some invoices went through Leipurin's own systems because of erroneous address information or because of pressing issues. Other parts of purchase ledger such as paying for companies, keeping track of payables etc. was done in-house. Sales ledger was all done in-house. Other bookkeeping and all other parts of financial accounting were done in-house partially together with Aspo, depending on the importance of issue.

Other companies had same sort of structures as Leipurin. What brought inefficiencies to the corporation was employees bound to their companies. As different companies had different kind of peak times for their workforce demand being bound to companies meant some employees could be underemployed same time as some were majorly overemployed. This created imbalance in the corporation as a whole. This also required more personnel as all work needed to be done, so slack time in other companies would not cover other companies' overtime work.

As personnel was appointed to one company, they didn't get the full benefits from other companies. Even though some work was done cross-company, all employees would still be appointed to one specific company. This could have affected employees' payment level regarding their bonus-salary. This thing was more problematic on the IT-services of the corporation as IT was working with all the companies all the time, even though employees were assigned to exact companies. This created unfair differences on the bonus-salaries.

This starting point is best described as a decentralized in-house accounting. Having an own financial department for every company inside the corporation created the situation where

all units worked independently even though they were located on the same building. This was aimed to be a dynamic system, where everybody had their area of responsibility divided by company rather than their area of expertise. Instead of having teams focused on specific areas and working for the whole corporation they instead had teams inside each individual company working for those purposes.

This system was made for each individual company to self-control their financial department. Corporation had the feeling that by having financial department as part of the individual companies' budgets, they would control money spent and would maintain a low level of cost. This system was also made in order to being able to detach companies from the main corporation. Having a self-reliant system would make it easier to detach companies, in the mind of the board.

What this system was lacking was synergy advantages inside the whole corporation. It put pressure towards individual companies but didn't think what could be gained from having a unified accounting system with all companies. Established system was seen as good enough to control the cost and was not continuously put under question. This made a static system that was believed to be good but was not tested from any direction.

As technology developed, the system came into question. This gave more pressure to do decisions inside the company. Although the old method was well established and worked for the company, it really hadn't been tested against any other system. This competition free state didn't give any information on how good the system really was, only that it was okay and working. Testing the system against others was to be unavoidable.

7.5 Towards new model

As the discussion inside the company kept flowing, it started to look more and more like something wanted to be done. There was a clear need for change, but there wasn't an exact direction decided yet. From this point started the decision making evaluation on how to choose the best practice for Aspo. Given, the old system had worked fine as it was, there was no need for complete rework, though this could have been the least painful method. Bigger change would have given more benefits but also brought more risks. Weighting on the aspects of Aspo, company came to conclusion, that it could still use its own workforce as it was well established,

but make more effective use of synergies between its own companies and try to combine accounting under the same organization rather than keeping it in the individual companies.

Many different models were considered before finding the one Aspo ended up going with. Problem in this decision making for Aspo was that they were offered much either or models, rather than having the cloud-provided flexibility, when it came to outsourcing. Offers mostly consisted of having a fully outsourced system that would be operated outside, even going as far as outsourcing the whole financial department. This way Aspo could have moved financial department away from their daily routines and focus on their core competence. No excess capital would have been tied to this section, only outsourcing payments. This seemed like too much of a leap, as there were trust in employees inside the company to still be able to provide better knowledge than what could have been gotten from outside companies. Given that Aspo doesn't see finance as a strategic aspect, holding on to it somewhat contradicts with McIvor (2000) as this was clearly a process that could be outsourced, but still was wanted to be kept in-house. As McIvor tells, all non-core processes should be outsourced if possible and if outsourcing is more economical solution. In this case outsourcing would have been more economical solution and service-level should have stayed on the level that is needed. Still Aspo ended up deciding to use in-house accounting. This decision contradicts with the theoretical side.

Reasoning to justify this decision can be seen from the point of this change being an opportunity rather than a crisis change. A radical change is more hard to apply if there isn't an imminent crisis. Therefore, smaller change could be more easily manageable rather than a large one. But giving up on the best outcome in order to maintain balance in the company will become costly in the long term. So instead of going with the subtler option, what Aspo should have done was to go with the financially best option of radical outsourcing and take the risk of some resistance. This would've been quick to handle as workload would've moved to a new place and personnel would have been mostly laid off with early pensions and such. Risk of change resistance is always imminent in big organizational changes, even in the small ones so making one big change instead of two smaller ones to accomplish the goal would have been more beneficial in this case from a retrospective.

As can be seen in this case example, recognizing non-core areas is one thing, and acting on them is another. Here financial processes were recognized as non-core competence, but were still decided to keep in-house. Reasoning being to protect the quality of work. Conflict

with this thinking was, that being a repetitive process like accounting, complexity of work isn't on a that high level, so quality should not drop even with outsourcing.

Later on in this change process it came clear to Aspo, that even though combining all the financial departments under the same roof, all jobs could not be handled as well as before. This was because of the lay-offs done together with the organizational change. So once again they were faced with a decision of outsourcing. Centralizing had worked well, but in the need of new personnel to replace the old, it was a question of whether or not to keep personnel in-house or outsource. This time the decision was made to move towards all outsourced model as hiring new personnel would have taken same amount of effort. This was also done to gain economies of scale as the outsourcee could work more efficiently and split workload more evenly in order to avoid slack.

These movements from decentralized and in-house process into centralized outsourced system is how theory suggested the move to go. Difference to theory is that Aspo had the thought of going only to centralized system. This effects on the executing process. Centralized system was built more as a long term system rather than a movement phase. This raised some costs. As a movement phase, building a working synchronized IT-system would have been enough and no organizational re-structuring would not have been necessary. This way almost a straight leap from decentralized in-house process to outsourced and centralized process could have been possible. Risky movement, but in Aspo's case possible as decentralization was only on company level and not location level. Change would have been little smaller and this could mean a difference.

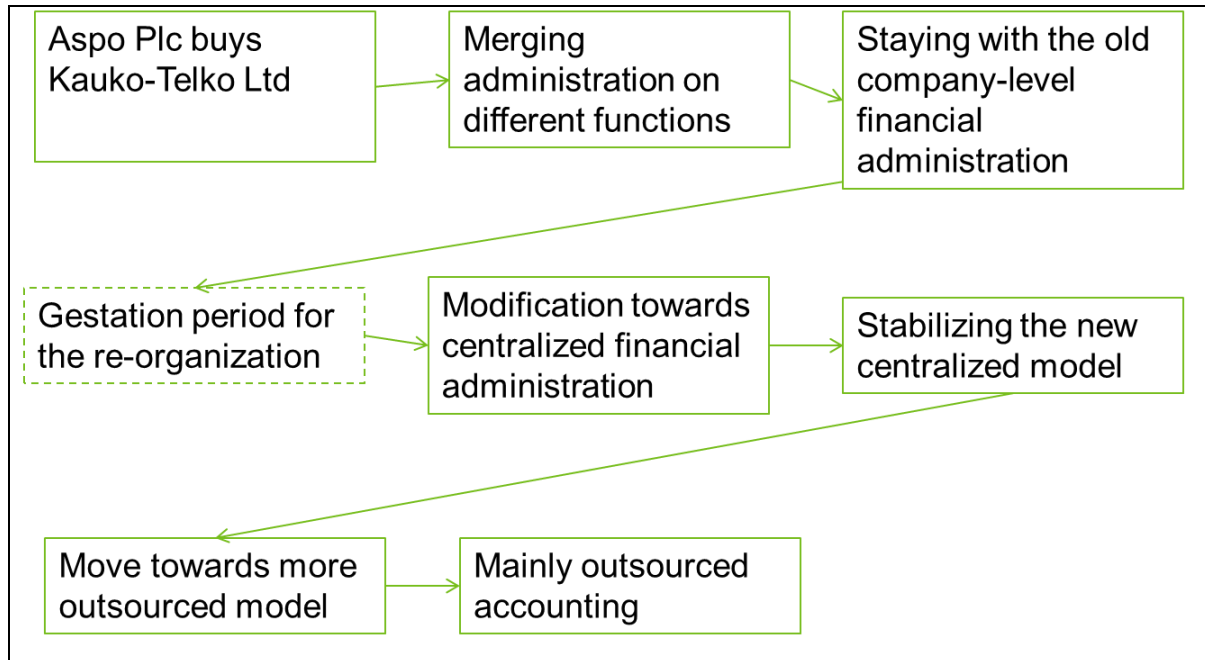


Figure 5. Timeline of the decision-making process

Figure 5 illustrates the decision making and the different steps in the whole process. As it can be clearly seen from the figure, there were many steps in moving from completely decentralized, company-level, accounting and then ultimately ending up in the centralized outsourced model. This figure has the important steps portrait in one picture. All of these steps had a meaningful impact regarding the end result and gave insight of possible options. In all, these steps took about 6 to 7 years so a process like this does not happen quickly. Therefore, companies should be willing to take time and effort in order to find the right model. Otherwise they may end up in a sub-optimal solution. This sub-optimal solution could have happened also in Aspo, if the process would not have been re-assessed over the course of this decision-making.

Ending up in the centralized outsourced model was in the end clearly the best solution for Aspo, but still some issues arise that are difficult to handle in their current model. As three of the four companies that Aspo owns, work quite similarly but ESL Shipping is an exception to this. Working as a service company it needs different kind of attention compared to the others. This has caused bit of a troubles as the accounting was outsourced. In-house, Aspo had employees that had worked with these issues many years and knew how to do things. This silent information was not passed to the outsourcee so issues became up afterwards. This is an issue Aspo is still working on. Depending on how this issue goes on Aspo could have an option

to separate this part of the financial side and bring it back to in-house, where they could give more focus to it. This would give the decentralizing advantages on this differently modified part of the structure.

What would help Aspo to possibly take ESL shipping's accounting back in-house, if needed, is the fact that Aspo still owns the IT-systems in which its accounting is run. This gives Aspo more options, if they want to change directions and return to in-house model. Since they own the system, they don't need to build or buy a new system, if outsourcee is find incapable of maintaining the service level Aspo wants, or if the costs are rising too high. This benefit was achieved with building the in-house accounting before outsourcing accounting. Though this system was also expenditure that would not have come, if Aspo had move straight from its old system to completely outsourced model.

Taking some of the accounting back in-house would be made to improve quality of accounting in the cost of financial side. Having only small part of the accounting in-house would not be efficient way of working as even with all four companies there were slack in the workforce. Best thing would be to find a solution were the outsourcee would fix the problems in ESL Shipping accounting as they have best resources to do so. This might make outsourcing costs bit higher, but it would still be smaller cost than bringing accounting back in-house, finding the right people and keeping it functional.

7.6 Comparison towards the framework

The framework shows that Aspo's starting point was on the bottom left corner (Table 5). Accounting had been decentralized and led individually in every individual company. This model was a production of history and "it has always been this way" -thinking. Same goes with in-housing. Model had been used before so there was no reasoning of changing it, as it had worked before. Kauko-Telko, on the other hand was on the top left corner, having its systems mostly centralized but still kept in-house. On the contrary, regarding Aspo's model, what happened when this model was questioned, was that new model moved to the opposite corner of centralized outsourcing. This happened despite the earlier plans of still having accounting in-house instead of outsourced. Outsourcing proved to be more effective in this situation, so Aspo adapted to it. This was part of effective adaptation during the course of modeling the way

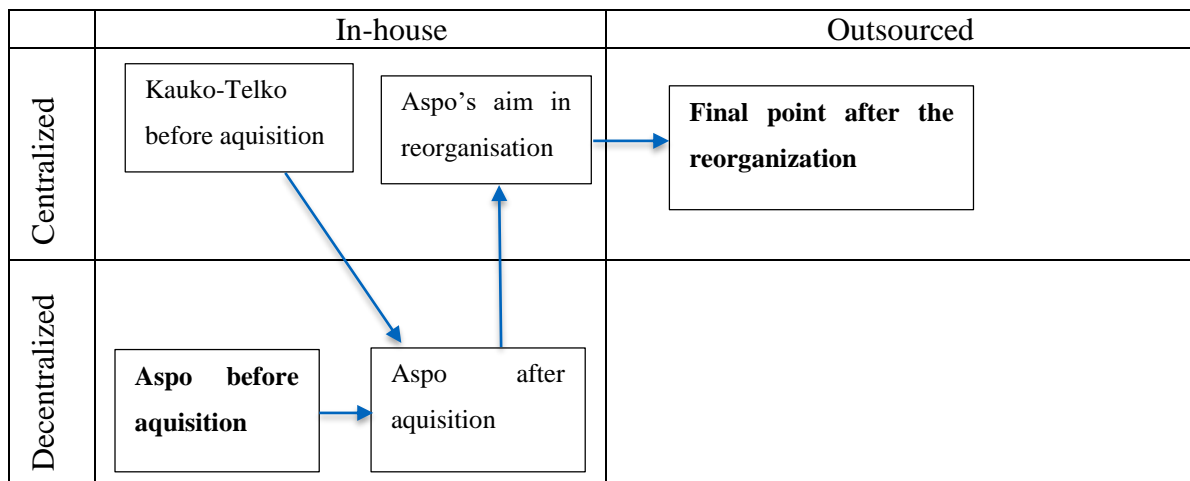
of handling accounting. As in-house system wasn't working as well as was hoped, the move to outsourcing was made.

First model (table 5) of decentralized and in-house financial department was not bad way to work, but its problem was inefficiency in creating economies of scale. On paper it looked good as every sub company cut their expenses to minimum, but what was missing was the possibility of uniting all the financial departments and have them work as an individual department that would sell services to these sub companies. Financial departments already work as a service department inside the company so having a service center inside the corporation would not change this, only alter the flow. Working as a corporation that has different locations, which would have been good option for decentralized in-housing, was not the best alternative. Aspo should have worked as a one unit on the behalf of financial departments and combine its financial departments immediately. Therefore, as from the framework, the best suggested model at that point would have been centralized in-house model. Outsourcing might have worked also, but having a secure accounting system, that was already established, was better option. Moving to outsourcing would have meant giving up control of the costs, that were hard to evaluate at that time.

Over the time as reorganization was done it came clear that outsourcing was more cost-efficient. As the old employees started to retire, their expertise was lost in the process. Reasoning behind keeping processes in-house dwindled with these retirements. Options of hiring new people or outsourcing were left at the table. Outsourcing was still the more cost-efficient option and as the benefits of expertise could not be known, as both options were new for Aspo, cost-efficient option was the way to go.

Aspo ended up in the core-competence section of the framework (table 5). Thinking about the other options, centralizing accounting systems seems like a must do situation for Aspo. Outsourcing comes more to the cost and resource efficiency question. Based on the previous theories outsourcing is usually the more cost-efficient solution in these sort of cases as the outsourcee can use their resources more efficiently as they can share workforce more freely. This works with basic processes such as basic accounting. Also reports that were made with the consultants suggested that the best practice moneywise would have been to outsource all accounting systems. Only personnel reasons supported keeping accounting in-house.

Table 5: Aspo's positioning in the framework through accounting reorganization process



Totally decentralized models don't really bring benefits for Aspo. Difficult accounting processes can be separated from the basic ones and done either in-house or outsource to a different company. Benefits of selling whole companies with strong administration does not give the benefits of extra costs coming from running separated financial departments in every company. Having this sort of decentralized structure would move Aspo towards a holding company rather than having an active part on the companies it owns. If that was the case, individual administrations would be more justified. Even then, some centralization would give cost savings, but could make fast trading harder.

One who could have benefitted from decentralizing its financial systems was ESL Shipping. Having more differentiated accounting because of its line of business, ESL Shipping's accounting require more specialized talents. An understanding of the shipping industry is needed in doing this sort of accounting. It is harder to make automatic as there are more evaluating and sectioning. This is where decentralized outsourcing could have given some advantages. Keeping a specialized personnel inside the company for just one company would end up in big work slack so cost benefits would not be achieved. Problem with decentralizing just one company is to find the right partner. This could become big cost so what would be better is to find good enough outsourcing partner that has the knowledge in the area or can find the expertise as a bigger operator in the accounting field.

Table 5 is a simplified explanation of different positions that Aspo were during the course of reorganizing its financial department. Key moments are presented on the framework to illustrate in which quadrant of the model Aspo was in these key points. Movements are illustrated with arrows from point to point. As this table shows, Aspo went through most of the

options regarding outsourcing and centralizing its accounting. This shows how these options are clearly possible for company, but yet it also shows how one of the options, in this case centralized outsourcing, was advantageous towards other options. This gives proof to the framework and the statement made earlier, that all options are viable for different situations and different sorts of companies.

Reliable accounting system wasn't something Aspo needed to aim for, as they already had pretty good systems on their own. Though they had to make sure that the service level would not drop when moving to outsourced system. Biggest thing was information flow between Aspo and the outsourcee company. Having to change from close relations between co-workers to totally outside personnel wasn't an easy thing. Usually not so formal conversations and information exchanges turned to be more formal because of the distance and new persons. Despite of these problems, no major issues arose that would have jeopardized the project.

Even getting bind to the outsourcee is handled with care. Systems are run through Aspo's own programs. This way Aspo has more control over the systems and can more easily change from outsourcing to in-house or to a different outsourcee. This is of course an additional cost, but Aspo had already developed these systems in their plans of having an in-house centralized accounting system so these had already produced big investment cost. Because of this, only real additional costs are maintenance costs. This also helps to monitor costs more easily and should help avoiding hidden costs that could form inside the outsourcee company that would be hard to handle for Aspo. System changes should not come as a surprise to Aspo, as it controls the systems, that its accounting is run. Only big expense could come from needing to chance this system. In that instance there should be made a decision on whether to still rely on own systems or move to an outsourcee's own system. This is something Aspo needs to consider in the long scope.

Seeing how Aspo has been able to avoid most of the negative parts of centralized outsourcing and gained advantages on where they are to be gained it seems like the change has worked on its favor. Aspo doesn't have especially secret information going through their accounting processes so they don't need the security advantages in-housing gives compared to outsourcing. As mentioned before, giving free development on accounting processes would not give synergies between companies and would most likely not be cost-efficient. Even if decentralizing showed better options, this should move all accounting processes on the same model and centralize systems again. Striving for decentralization is unnecessary.

Continuous development is of course something to aim for and developing process should not stop. Close monitoring of ESL shipping's systems is a showing that this continuous process is happening in Aspo. Constant monitoring of possible better solutions from in-house or decentralizing should be assessed.

As many steps in the accounting process are already automated, next step is most likely going to be towards more automation with robotic process automation. Developing these would essentially lessen the gap of outsourcing and making a question more of owning or renting/leasing automation systems. For now, these processes are still in developmental stages, but wanting to make the most out of accounting systems, these might come under consideration in a few years' time. Aspo has realized this and is looking towards it, but still keeping its ongoing systems developed and if needed, willing to take a step back and not pushing towards new systems if those are not working.

Overall Aspo's accounting model fits quite well on the top right corner of the framework. It has some aspects that could and maybe should be moved back to in-house but overall direction has been the right one. Total commitment to one quarter would not lead to a success for anybody.

8 Conclusions

This thesis has been addressing centralizing and outsourcing in company's accounting and administrative services in general. Mainly the focus was on the accounting processes that financial department handles. Four different combinations of outsourcing and centralizing were addressed as types of options for companies. Typical benefits and disadvantages of these options were then gathered and based on these a typical company types for each option were formed. These company types were to benefit most of a specific strategy, whether to centralize/decentralize and outsource or have processes in-house.

Main findings were about communication, difficulty of tasks, similarity of units, core-competence and personnel aspect. Simple communication, simple processes, same kind of tasks in different units and non-core tasks tend to get more benefits from centralizing and outsourcing. Opposite aspects usually tend to benefit from decentralizing and in-house processes. Personnel aspect needs to be assessed case by case.

Four options formed a framework which described how to benefit from the choices. This framework was then tested on an empirical case involving Aspo's financial department re-organization. Aspo's re-organization went through three of the four segments ending up in the centralized and outsourced strategy. These different stages showed what were the benefits of different options, but also showed why there was a need for a company like Aspo to move away from other options.

Aspo's reorganization matched the change process of theoretical movement of changing from decentralized and in-house system to an outsourced centralized model. Movement followed the reliable way of first centralizing and then outsourcing. This move, though not planned in Aspo, makes outsourcing easier and gives better control to outsourcer. Otherwise most of the outsourcing is controlled by outsourcee. In Aspo's case, a risk of leap without an interphase could have been done, because of own IT-systems, but safe way was also a good option.

Empirical part also showed three of the four options to be completely feasible options. Also the fourth option of decentralized and outsourced has, at least partially, been in talks at Aspo. This gives good view that all parts of the framework are possible solutions when correct type of company is in question. It also shows that moving from quarter to quarter is completely up to the strategy that company chooses. Every option can be done, even though often, in the end, three of the four options are suboptimal compared to one. Often it is not clear, which one

will be the optimal solution and testing is needed. As a onetime decision this option can't be optimized and only way of finding out the right solution is to evaluate beforehand and then, if needed, go with trial and error.

Accounting has been moving towards more outsourced and automated models. As technology develops accounting becomes more automated and best built machines take more ground on the field. As e-invoicing becomes more used options, automation of accounting can move even further. Many countries have been moving towards total e-invoicing and in EU it is their goal to have all invoicing done electronically by the year 2020. If all invoicing is done electronically there is no need for manual monitoring of invoices. More parts can be done without the need of human labor. Through machine learning, proper allocation of invoices might soon be able to be done completely by machines. At this point the question of centralizing and outsourcing of accounting and whole financial department changes. Then the question is more whether to own the machines (in-house) or by the service from somewhere (outsourcing). Decentralizing and centralizing mixes up as every part is done by the same program completely. This can be happening in the near future and will be an interesting topic to study, in the field of accounting.

Even if accounting might be automated, this framework will fit in other parts of administration as well. For example, human resources or IT can also be managed pretty much with same mindset as financial departments. Specific things from these areas should be researched in order to find most beneficial options. Importance of communication needed and what sort of information flows through services is the key. Otherwise centralizing and outsourcing are as good options in these field as they are in finance.

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