THE RELEVANCE OF GROUP ACCOUNTING ON INTERNAL DECISION MAKING

Master's Thesis

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Abstract

A company's financial management is one of the key aspects for the leadership of the company. Management makes decisions regarding the company's future investments and endeavors, largely based on the financial statements and overall financial situation in the company.

When discussing useful information in the context of decision making the financial statements of a company is the primary source. Adding group financial statements into the decision-making process should increase the amount of information for the decision makers but is the information relevant?

The purpose of this thesis to examine the relevance and added value of the group profit and loss statement and balance sheet bring to the decision process of the management.

- What financial information guides the internal decision making in companies?
- How relevant is the group financial statements for the internal decision making?

The method of this thesis is a case study with semi structured interviews and analysis based on the grounded theory.

The results of the thesis are divided, depending on the view. From the researchers point of view the thesis did not yield the results the researcher was hoping for as the subject foundation within the company was too low. On the other hand the results contradict most of the research on the subject matter as the relevance of the group financial statements were much lower for this type of small entity then it is assumed for larger entities

Key Words: Group Accounting, Consolidated financial statements, Decision making, Relevance, Grounded theory

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1 Introduction

A company's financial management is one of the key aspects for the leadership of the company. Management makes decisions regarding the company's future investments and endeavors, largely based on the financial statements and overall financial situation in the company. The information presented to management is key, and usually the preferred information as a base for decision making is the company's accounting (Justin H. Davidsson & Robert M. Trueblood, 1961). This information consists of the balance sheet, statement of income and statement of cash flows (John C. Groth & Steven S. Byers, 1996). The primary objective of the financial statements is to provide information on the financial position, performance and the changes in the financial position of the reporting company, so that the information is relevant and reliable for decision makers. (Victor-Octavian Müller, 2012) The question in this thesis is how relevant the group accounting for a company is compared to the parent company's accounting. Accounting has existed for thousands of years, but group accounting comparatively is a relatively new subject.

After the Ivan Kreuger scandal in the 1930s regarding one of the largest pyramid schemes in history (Frank Portnoy, 2010) regulatory authorities stated the Securities Act of 1933, which improved the reporting and reliability of the presented financial information. In more modern times the International Accounting Standards Board (IASB) has made standards to improve the reliability of the disclosed financial information.

The subject matter of this thesis revolves around voluntary group accounting and financial statements. According to the Finnish law on accounting all companies that exceed more than one of the following limits are required to make disclose the group financial statements of the company

1. Total balance sheet of 6 000 000 euro
2. Turnover 12 000 000 euro
3. Average number of employees during the financial year, 50

(Bokföringslagen, 30.12.1997/1336, 6:1:3)

Many companies that do not exceed these limits still choose to make the group financial statements to have a full perspective of the financial state of the company. Does this information provide more depth to the decision-making process for the company? The most useful information to a user or decision maker is relevant information, so the question is would this information be relevant to decision makers? (Groth & Byers, 1996)

Decision theory and what leads a person or management to make certain decision have a central role in this thesis. Decision are made from different perspectives depending on one's interest. An investor seeks the best company to invest his money in to achieve a profit, and the management of a company is seeking a way for the company to maintain its financial stability while making more profit. Decision theory is not straight forward, as the decisions made depend on the perspective and role to the company of the person making the decision. (Davidson & Trueblood, 1961) The decision-making process is not only about what to do with excess money as in many cases the problem the decision is regarding is how to minimize losses or how to turn a non-profitable venture into a profitable one (Davidson & Trueblood, 1961).

As the financial information is aimed at assisting management's decision-making process towards the goal of better profits (Ronello B Lewis, 1960). The management of the company must, for example, choose from a list of proposed capital expenditures those that provide the most promise for profits. Another decision based on disclosed financial information is the acquisition of business enterprises. (Lewis, 1960) The decisions made by management can according to Lewis (1960) be characterized by two qualities: Those in need of money or capital investment and the hope of profit.

1.1 Research problem

When discussing useful information in the context of decision making the financial statements of a company is the primary source. Adding group financial statements into the decision-making process should increase the amount of information for the decision makers but is the information relevant? As this thesis is made for a case company which recently became a group, the question is about the usefulness and relevance of the group accounting for this specific company. The case company will be presented in depth in chapter 3.

What added value does the Group accounting of a company, which is not required by law to make group accounting, give to the decision-making process?

A great benefit of not being required by law to make group financial statements, is that the company can make it as an internal report and proactively prepare for a time where they are required to make the group financial statements. As it is an internal report the composition of the reports and statements is without regulation so it can be composed in the way of the company's own choosing.

This subject contributes to lacks the empirical evidence in the field of smaller companies compared to research into larger corporations, which are required by law to make group accounting and submit them to the authorities. As the case company for this thesis is relatively small, there is very little research in this field and the overall relevance of group financial statements in decision making. Usually researchers do not have access to closely follow and research these kinds of smaller companies and are limited to larger companies whose financial reports are available to the public.

1.2 Purpose

The purpose of this thesis to examine the relevance and added value of the group profit and loss statement and balance sheet bring to the decision process of the management.

1.3 Research questions

- What financial information guides the internal decision making in companies?
- How relevant is the Group Financial Statements for internal decision making?
- Can the group accounting and financial statements be used as base for future financial decision?

1.4 Structure of the Thesis

In Chapter 2 a literature review will be presented with relevant theory of decision theory and relevance in accounting. The subject of relevance in accounting is a much-discussed subject in accounting and some key findings will be presented. A Brief history of group accounting leading up to present time will be presented followed by relevant key performance indicators for financial analysis.

In the third chapter the case company and the empirical context will be presented

In the fourth chapter the research method for reaching the purpose of the thesis will be discussed

In the fifth and sixth chapter the results of the thesis will be presented followed by a final discussion.

2 Literature Review

In this chapter the thesis will review relevant literature regarding decision theory and the linkage to economic decisions of the management. Relevance in accounting will be discussed and followed by the primary performance indicators in accounting. What is the important theoretical context for decision making and what is relevance is some of the questions this chapter aims to answer.

2.1 Decision Theory

What drives an individual's decision making or multiple actors decision making is a field of study in Psychology, as human behavior is a complex and sometimes non-rational. Some answers regarding the decision making of individuals can be found in the decision theory.

Decision theory revolves around normative and descriptive decision theory, or these are the primary emphasizes inside the field. Normative decision theory aims at the question of how people ought to make decision to be regarded rational, as the descriptive decision theory aims to describe how people make decisions in a variety of scenarios (Anatol Rapoport (1989), p.2)

Decision theory deals with situations were one or multiple actors make choices from a wide variety of given alternatives (Rapoport, p.1) These alternatives may range from courses of action to be taken, amount of money to be paid for objects, or future business development. Decision theory is based on the assumption that every decision has a consequence or outcome, and that each of the actors making the decision have preferences for the outcome. (Rapoport, p.1) (Sven Ove Hansson, (2005) p.6)

Decisions are divided into decision made by one actor and decision made by multiple actors, as a decision made by a single actor can be seen as an egocentric decision and decision made by multiple actors cannot remain egocentric. The decision-making process of one actor is well-documented and studied among psychology research and management research. (Rapoport, p.2-3)

A specific field in decision theory which involves the management of a company is multi-objective decision problems. Many of the problem's actors faze are defined as one dimensional problems, whereas the multi-objective decision problems face much more complex situations where many factors must be weighted. For example, when an actor is buying a new property for their business operations. They have to take into account the size, location and price of the alternatives presented. A property that is at the right location and is the right size might be too expensive or any combination of these where the last factor is negative. It is assumed that an actor in these situations will weigh in the advantages and disadvantages of every option in relation to the objective and balance them against each other to find the most suitable solution. (Rapoport, p.4)

2.1.1 Normative decision theory

Normative decision theory is, as previously mentioned, the theory of how people should behave when faced with decisions in specific scenarios and is called a deductive method. The challenge in normative decision theory is to define what a rational decision is, so that it can be deemed normal. (Rapoport, p.2) The normative is occasionally also called prescriptive approach and is based on the assumption that most phenomenon's have some sort of internal logic behind them describing the functions. (Brännback & Rantanen, 1994) The normative approach to decision theory usually uses mathematical formalizations of some managerial problem in order to determine a recommended action. When it comes to human decision making the normative approach is not good enough as human decision should be viewed as very complex and human and the method simplifies too much of the decision-making process (Brännback & Rantanen, 1994)

2.1.2 Descriptive decision theory

As the normative decision theory focuses on postulating some form of optimality and rationality, the descriptive decision theory focuses on exploring how decisions are made. It aims to describe the behavior of the subjects as accurately as possible in their aim for rational decision making. The descriptive decision theory is primarily inductive as it searches for patterns in observations and develops explanations (Rapoport, p.6). This method does not aim to generalize patterns as it focuses on a discovering the rules governing decisions in a certain group of actors in a certain decision-making situation. (Rapoport, p.6)

The significance of descriptive decision theory greatly increases when as attention is focused on actors in a seat of power like for example a board of directors. A few actors have the influence over a larger population. In these situations, descriptive decision theory cannot be developed on the ground of statistical data, as it is derived from controlled experiments. These forms of observations are confined to case studies, where the reliability and quality of the study varies. (Rapoport, p.7)

One great challenge in this method is the inconsistency of the actors as the actors can often change their mind when lapses in their rationality occur. (Rapoport, p.7)

2.2 Managerial Decision making

A central part of the thesis are the decisions made by the management and what directs their decision making. The managerial decision making can be divided into many different categories, such as marketing or human resource related decisions, but the category this thesis is especially interested in, is the financial decision making. The decisions management are set to take can differ from what to invest in to how to cut losses or even take passive action. Lewis states in his research (1960) that the accountant and the accounting set the stage for decision making, as the numbers presented to management are the foundation of decision making. The process includes the selection of the problem, the weighing of alternative solutions in the light of their profit potential and eliminating so that the most profitable alternative is isolated and presented to the management. (Lewis, 1960)

From the management perspective they decide for example on what assets to keep and which are not profitable and should be sold, or on another angle what to invest in to be able to grow the business and increase profits. (Growth & Byers, 1996) The choices management faces are numerous, but this thesis focuses on the relevance and usefulness of Group accounting, so managerial decisions are limited to those related to operations in regarding subsidiaries. Are the subsidiaries profitable and how to make them more profitable? How much is invested in the subsidiaries and what is the return?

How the information is presented has a deep impact on the decision made from the information (Brännback & Rantanen, 1994). If the information is made relevant and trustworthy it is easier for the management to make well informed decisions based on it. The issue with decision in the management of a company is that the management often approaches decision making based on intuition and consequently solve problems in an "in the moment" manner. (Brännback & Rantanen, 1994) Intuition is an implicit weighing of experience and knowledge. How decisions have been made in the past and what an actor's own intuition is, it will affect the decision making. When we make decisions and choose between options, we try to obtain the best result as possible. In the decision making we try to distinguish good decisions from bad, or finally which is better. "The choice of a value-standard for decision making is the subject of moral philosophy" (Hansson (2005), p.13). A person makes decisions based on their own moral guidelines a past experiences. (Tomas Brytting, 2005, p.40)

The management process can be described in a three-question process according to Davidson and Trueblood

1) What is the problem?

2) What are the alternatives?

3) Which alternative is best?

(Davidson & Trueblood, 1961)

Hansson (2005) presents an alternate, more describing division presented by Brim et al (1962) which includes 6 steps:

1) Identification of the problem
2) Obtaining necessary information
3) Production of possible solutions
4) Evaluation of such solutions
5) Selection of a strategy for performance

6) Implementation of a decision
   (Hansson (2005) p.10)

The decision process which was presented second is specifically modified to be used in organizations and will be used in the evaluation of the perceived usefulness of group accounting in the decision-making process.

Dividing decision-making process into subsequent steps has received a fair share of criticism, most notably by Eberhard Witte (1972) who stated that the decision-making process cannot be divided into consecutive stages, and that the stages in the decision-making process are parallel rather than in sequence.

The decisions made by management can further be divided into two categories: Routine decisions, like how much raw materials must be bought in order to keep production going, and Special decisions, which are irregularly reoccurring decisions, like rearranging organizational charts or larger investments (Davidson & Trueblood, 1961)

When it comes to the information provided there might appear scenarios of under-information and over-information. Under information is a state where management makes decision where they don’t have all the information required to make an appropriate decision. Over information is the opposite where management have too much information to base the decisions on. In many of these cases a summary of the information would have sufficed, and this particular theory is relevant to the thesis. Is the added information of the group accounting considered over information and irrelevant? (Davidson & Trueblood, 1961)

In managerial decision making, the individuals own ambitions are of particular importance. Some people in positions of decision making tend to maximize their own payout as others tend to care about others payout (Goldfarb et al. 2012). In the previous case fairness and equity can be argued for and these kinds of social preferences can affect optimal firm strategies significantly. Decision makers might also utilize reference points in decision making, like previous experiences and the success and failure of these. (Goldfarb et al. 2012)

2.3 Moral hazard in management

Moral hazard is a type of information asymmetry, which is relevant to this study, as it studies behavior of people. “Moral hazard is the risk one party incurs when dependent on the moral behavior of others” (Encyclopedia Britannica, 2019). William R. Scott also stated Moral Hazard as “A type of information asymmetry whereby one or more parties to a contract can observe their actions in fulfilment of the contract but other parties cannot” (Scott, William R, 2015, p.23). The risk of moral hazard arises when there is no effective way of controlling the behavior of others. The risk of moral hazard plays a great part in management decision making. As the board of directors make decision regarding the company’s future, a single or multiple individuals might not have the same goal. A decision regarding investments into a new subsidiary, or expansion of business might be voted down as the individual wants to maximize his own profits and dividend, on behalf of the company’s longevity. The decision is not based on future cash flows or growth prospect as they might be based on short sighted personal gain. The result of the company might be manipulated to represent a better result for the company to increase the dividend payouts (Sedatole, Karen L., Vrettos, D., & Widener, S. 2012)

2.4 Group Accounting

In this chapter, a closer look at group accounting will be presented, with a historical summary and the relevance of group accounting being discussed together with managerial decision making based on financial statements.

In a historical perspective, consolidated financial statements or group accounting, is a new phenomenon. Setting standards regarding group accounting is still an ongoing process and has been this way for the whole of the 20th century. As corporations in the early 20th century were established, most of the subsidiaries were fully owned by the parent company, and it was not until the 1920s and 1930s that majority ownership became popular. Paul Taylor states in his book from 1996 that the first recorded consolidated financial statements were published by US Steel in 1900. Taylor also states that Edward and Webb conducted a survey in 1984 and found the first British consolidated financial statements dating 1910. The State of Victoria in Australia was the first place in the world to legally require consolidated financial statements in 1938. (Taylor, 1996) The disclosure of financial gains from subsidiaries were limited to dividends before the legal requirement of consolidated reports (Taylor, 1996). In Europe, the development was slower as the European commission published its directive on consolidated financial reporting as late as 1983. (European Commission, 1983)

The theory behind consolidated financial statements are built around four different theories, which vary in the framework for what companies should be included, or differentiated, in the group financial statements. The theories are: The proprietary theory, Parent company theory, extended parent company theory and entity theory, (Lennart Eriksson, 1995)

The four different theories vary greatly in how subsidiaries are differentiated in the group financial statements and how the ownership and minority interests are treated in the consolidation process, if they are included at all. It all depends on if an entity- or proprietary theory is applied and if a parent company- or entity perspective is used (Eriksson, 1995). The parent company perspective, which is derived from the proprietary theory, is based on the subsidiaries being the extended arm of the parent company, which means that the group owned and outside part, or minority interest, are not treated in a uniform way in the group financial statements. Another view to this differentiates whether a subsidiary should be included in the group financial statements is the differentiation in “space”, or how far the group extends. This means that the group can be defined using an activity approach or a user-oriented approach. Using an activity approach the group is defined to be inside the parent company managements control and power, so the management has power to decide the usage of the subsidiaries financials. In other words, the company falls in the scope of power for the parent company. In the user-oriented approach, the group is determined by a joint area of interest. (Eriksson, 1995) (Taylor 1996)

The choice of framework and perspective has an impact on the structure of the balance sheet and in valuation of assets and liabilities. According to the Proprietary theory the owners of the company are central, and the company is identified as its owners. The company equity is set to belong to the owner which means that Assets-liabilities = owners' equity. This method is correct in single company perspective and the correct way to do financial statements today, but in group accounting this method has been substituted with the entity theory. The entity theory was first presented by William A Paton in 1922. As one of the first objectives of group financial statements was to "amplify information in the parent's own accounts because the parent's business is carried out through alliances with other economic entities" (Taylor, 1996, p. 14). One way to achieve this was through consolidation were the whole economic entity is presented as one. According to the entity theory the whole group should be presented as a distinct, fictive person, separate from the owner and other stakeholders. The company is presumed to benefit the all stakeholders, which means majority shareholders, minority shareholders and external lenders. According to the entity theory the group accounting must satisfy the information need of all parties. This translates into Assets (resources and investments) = Capital sources (equities and financing) (Eriksson, 1995). The entity theory supports the modern reality of group accounting and is also the way of organizing the group financial statements according to the Finnish legislation. In the entity theory a group is defined as a super-entity where both owner categories are equal as in the shareholders of the parent company and the minority shareholders in the subsidiaries. (Eriksson, 1995) (Taylor, 1996)

The group accounting should reflect the whole group's interactions with the outside world. As the group accounting primarily consists of the individual statements of income and balance sheets of the companies belonging to the group, all the internal transactions must be eliminated. Among the most noticeable differences is the shares in subsidiaries. (Eriksson, 1995)

2.4.1 Relevance in Accounting

Relevance and reliability are the two primary qualitative characteristics of accounting and financial reporting. Standards for producing and devising the data are continuously developed by the IASB through their accounting standards called IFRS (International Financial Reporting Standard)

Although the IASB standards are highly aimed at the relevance of the balance sheet of the company, and the Finnish accounting standards are aimed at the P&L of the company, the main principles for presenting relevant information are the same.

The relevance aims at the trustworthiness of the values presented for example in the context of fair value accounting as the reliability aims at how well an economic phenomenon is described in the information (Kadous, Koonce & Thayer, 2012) The accounting should be both relevant and reliable to be useful in decision making, although the accounting can be relevant without being reliable and it can be reliable without being relevant (Raymond J. Chambers, 1966) Chambers writes in his book, Accounting, Evaluation and Economic behavior (1966) that financial statements must be relevant and objective for the time when it was created, but this characteristic can disappear with a consolidation.

In their Conceptual Framework from 2010, IASB have listed some qualitative characteristics of useful financial information. Relevant financial information should make a difference in the decision made by the users (IASB 2010, QC6) Relevance, or as IASB calls it trustworthy representation, represents economic phenomenon's in numbers and words. To be useful this information should not just represent the financial phenomenon but also represent it in a trustworthy way. To be presented in a trustworthy way the information should be complete, neutral and flawless. Achieving true trustworthy representation occurs very seldom according to the IASB but their task is to maximize the use of these qualitative characteristics in accounting. One of the central and most quoted part from the conceptual framework is QC17, which is practically an extension of Chambers proposition from 1966. The information should be both relevant and presented in a trustworthy way to be useful in decision making (Kathryn Kadous, Lisa Koonce & Jane Thayer, 2012)

Benzion Barlev & Joshua Haddad (2003) state that through fair value accounting a greater relevance can be achieved in contrast to the historical cost, and that this method should be the dominant one in accounting worldwide. Historical acquisition cost is an irrelevant source of information for investors, but still accountants prefer this method over fair value accounting (Barlev & Haddad, 2003) Carsten Erb & Christoph Pelger (2015) oppose the opinion of Barlev and Haddad as they claim that fair value accounting creates challenges for auditors and the thought of reliability suffers if the information is difficult to verify, as it is based on assumptions and calculations from the company's management. Erb & Pledger do however point at fair value accounting is still a process in development. (Erb & Pledger, 2015) Jennifer Francis and Kathrine Schipper (1999) point out that, according to their research in value relevance of financial statements, that the relevance of cash flow statements is much higher than the financial statements, but as the subsidiaries of the case company are not required to produce cash flow statements, this point will unfortunately become a subject for future studies. (Jennifer Francis & Kathrine Schipper, 1999)

Most off the recent research in the field review the relevance from an investor's perspective and fair value accounting is pointed out as the leading way to achieve relevance. There is very limited research in how relevant group accounting produced according to historical acquisition cost is, so the hypothesis of how relevant group accounting is for internal decision making is still valid.

Group financial statements and annual accounts are informative as they reflect the economic performance of the whole group while the parent company annual accounts are relevant for payments of dividend (Jyrki Niskanen, Juha Kinnunen & Eero Kasanen, 1998) According to Niskanen, Kinnunen & Kasanen the group accounts are more relevant than the parent company accounts.

Victor-Octavian Muller (2011) questions the overall need for parent company accounts and financial statements as he with the support of Niskanen et als research conclude that the group financial statements and accounts are more informative and relevant to the company's stakeholders. Muller (2011) points out that this conclusion only applies to the relevance to investors on the capital market and future research could concentrate on how relevant the group financial statements and accounts are to other stakeholders to the company. Another thing Muller points out that it would be of great interest to research which information is more relevant to the other stakeholders in the company, parent company or group. (Muller 2011)

The matter of relevance in group accounting is a field for future studies and as Muller researches the relevance for investors the same form of research can be applied to the company's internal decision making.

2.4.2 Managerial decisions based on financial statements

In managerial decision making an important factor is what kind of decision is to be made. Different decisions require different types of information. To properly process the topic, we must define financial statements. A company maintains various books which it is required to by the laws of its residence country. The various statements are kept for different purposes, like the financial statements, which appear in the company's public records, but the company may also maintain statements or records for compliance with governing tax rules (Groth & Byers, 1996). The three most important statements are the balance sheet, the statement of income and statement of cash flows.

Assets are the key support for a company to value creation. The assets are the company's "money-makers" and management must decide what assets to sell, what assets to keep and in what assets to invest. Assets are divided into short term and long-term assets. Short term assets are cash and inventory which also may be referred to as working capital as it turns over or is replaced. (Groth & Byers, 1996)

Long term assets are assets which have a longer expected lifespan and will generate income for a longer period of time than inventory. In the lifespan of an asset it will technically be used up over time and to reflect this in the balance sheet the company makes deductions based on the depreciation of the assets. The depreciation which is deducted from the value of the asset is stated in the statement of income as a depreciation expense, the expense should not show in the cash flow expense as it is an accounting entry. (Groth & Byers, 1996)

Equity shows the share capital of the company added with funds and the results of the previous years and the present year. (Groth & Byers, 1996)

The liabilities show the claims against the assets as it shows the how much of the assets and operations are financed by outside capital. Liabilities are separated into two categories based on maturity. The liabilities with a payback time shorter than one year are short term liabilities and all liabilities with a payback time longer than 1 year are long term. (Groth & Byers, 1996)

The valuation of assets is divided into two ways: historical cost and current value or fair value. The historical cost method is the more commonly used in smaller businesses as it is referred to as book value. In most cases the market value of inventory or other assets are quite different from the book value in historical costs. Good accounting principles require marking down the value of assets if the market value is less than the stated value, particularly in the case of inventory. Contrary to the fair value valuation, historical cost accounting does not mark up the value of assets as the goal is in case of liquidation to yield proceeds at least equal to the amount shown on the balance sheet. (Groth & Byers, 1996)

Fair value accounting is the method adopted by IFRS, and focuses on the current value of assets, instead of the historical book values. Assets are revised to correspond to their current value and this adjustment has a great effect on for example buildings. A building bought in 1950 for 50 000€ might be valued in today's market at 50 million €. If the building would be valued according to the historical cost in the balance sheet the total value of assets in the company would not present a relevant picture. (Groth & Byers, 1996)

An important remark is that the balance sheet is a statement from a specific point in time.

The Statement of income reflects the company's usage of assets over a period. A central method for the statement of income is accrual accounting, where the company recognizes an event regardless of the cash flow. For example, a company can sell products to a customer and recognize the revenue, without the customer's payment at this point. Revenue that has not been paid is recognized as an asset, a sales receivable, on the balance sheet. (Groth & Byers, 1996)

The statement of cash flow explains the change in the level of cash between two points of time, as it states where money has come from and what is has been used on. This process is different from the statement of income as it does not focus on where the earnings come from. As this thesis will not be using the statements of cash flow, due to the subsidiaries not disclosing this information, the subject will not be presented any further than this. (Groth & Byers, 1996)

2.4.3 Currency translations

Currency translations described in this section refer to the restatement of a foreign subsidiary's financial statements into the functional and/or reporting currency of the parent company in the group for the consolidation of the financial statements into group financial statements.

Regarding the currency translations for this thesis the two main questions are: which exchange rate should be chosen, historical values or the rate on the last day of the financial year and how should the translation difference be presented? The Finnish accounting authorities recommend translating the balance sheet according to the exchange rate on the last day of the financial year and the profit & loss statement according to the average rate of the financial year. Other methods may also be used according to generally accepted accounting principles (BokFl, §6.6). So, the question arises if there is a need for another method for this specific company. What would be the most beneficial and easy to use method. The functional currency and reporting currency of the company is Euro, as 4/6 companies operate with the Euro Currency, as only the middle east and Georgian offices use a foreign currency.

One of the key differences between the methods is the location of the gains and losses in the financial statements. The location of the gains and losses have a significant effect on the company's profitability, creditability, management compensation and overall financial performance (Emmanuel Iatridis,2007) Other research debates the correct position of the gains and losses and it is a subject of controversy. Some researchers such as Bazaz & Senteney (2001) and Adler & Dumas (1983) argue that the financial gains and losses from the currency translations affect the firms market value and should therefore be recognized in the profit and loss statement while for example Garlicki, Fabozzi & Fonfeder (1987) and Soo B & Soo L (1994) argue that the gains and losses from the translations of the subsidiaries are only on paper and should therefore by recognized in the balance sheet. Furthermore, Garlicki et al. (1987) argue that if the co-operation with the parent company is high, as in regular and continuing transactions, the immediate recognition of the translation gains and losses properly reflect the multinational operations of the company. However, when the subsidiaries are independent, as in borrowing in the local currency and repaying the loans from their own operational income, the translation gains and losses, if reported in the profit and loss statement, are just book entries and would not be realized in the current financial year. This leads to the parent company reporting a hypothetical large gain or loss from the translations which leads to a major adjustment of the net income, while the true earning could be quite linear. (Garlicki et al. 1987) The case company aims for the subsidiaries to be independent, although the starting capital and leasing invoices are sent to the subsidiaries.

This thesis will utilize the Current method for currency translations as it an easy and approachable method which leads to relevant financial statements and utilizes international accounting standards, although it deviates from the clean surplus concept (Eriksson, 1995)

As stated previously the only subsidiaries for the case company which are affected by the currency translations are the Georgian office, whose local currency is Georgian Lari, and the Middle east office, whose local currency is New Israeli Scheckel. The co-operation between the subsidiaries and the parent company at the moment are leasing invoices for measurement equipment and some irregular collaborations on projects.

2.4.4 Deferred Tax

Deferred tax will not be discussed in this thesis, as it was concluded after the making of the group consolidated financial statements that this would not be applicable.

2.5 Key indicators

Key indicators are one of the main ways to monitor and measure a company's financial performance. Key indicators are a summarizing value aimed at describing the correlation between two variables. The most important aspect of key indicators is that they are relevant to the interesting party. Someone inside the organization must be interested in the value indicated for it to be called a key indicator. Key indicators are values we are interested in. In short, a key indicator can be summarized as: Key indicator = Point of interest / Base of comparison. (Catasús, Högberg & Johrén, 2017)

Key indicators are a simplified construction of reality as they make it easier to present financial information or financial development around. They are used as explanatory anchors or foundation for presentations, and furthermore they must have two important characteristics: firstly, the construction and choice of key indicators must be well thought out and secondly, they must be useful in a way that gives the user of the key indicators more knowledge about the subject. (Catasús, Högberg & Johrén, 2017)

In this case we must try to obtain to most useful key indicators for the case company. In the interview process I will use the key indicators as a foundation for questioning.

The number of key indicators cannot be too extensive as it might lead to a situation of over information, as discussed in the section on decision theory. And the key indicators most be crafted in a simple and explanatory manner as the participants of the interview cannot be assumed to have extensive knowledge of financial analysis. (Catasús, Högberg & Johrén, 2017) (Davidson & Trueblood, 1961)

Firstly, I will present some key indicators specific to the group accounting and secondly I will present some key indicators regarding the subsidiaries. The subsidiary key ratios will be explained in the interviews as a difference in single subsidiary key ratios compared to the group accounting. As the subsidiaries have been established recently, they do some consulting work for the parent company and the turnover generated from this will be eliminated from the group accounts, so the key indicators, will have differences. The key indicators will be summarized as calculations in the end of the chapter.

The first key indicator presented is Return on equity, or ROE. ROE is a measurement on the company's financial performance calculated by dividing the net income by shareholders equity. It is an indicator in percentage, of how much the shareholders invested capital is earned back by the company. The net income is calculated including the taxes, as it shows the flow of capital to the shareholders. As shareholders equity is the same as the company's assets minus the debt, ROE could also indicate the return on net assets. The ROE percentage should be higher than the interest rate of the banks, as otherwise it would be more profitable for the shareholders to simply have their money in the bank. (Catasús, Högberg & Johrén, 2017)

Equity ratio is a key indicator showing the company's payback ability in the long term. It is calculated as total equity divided by total assets. Equity ratio is one of the most commonly used key indicators (Catasús, Högberg & Johrén, 2017) The untaxed reserves are usually included, in the amount excluding the latent tax debt, in the shareholders capital when calculating a company's equity ratio. An issue with this calculation is that the values are based on the book values rather than the market value so the indicator is lower than it should be. What the equity ratio shows is the amount of shareholders equity compared to total equity. Equity ratio is not simply about having a high or low ratio, as both sides come with benefits and drawbacks. A usual equity ratio is between 20-50%. (Catasús, Högberg & Johrén, 2017)

Profit margin is a key indicator that shows the company's profit margin compared to the turnover. It is calculated as net income divided with revenue. Profit margin represents how much of the turnover has turned into profit. (Catasús, Högberg & Johrén, 2017)

Return on Assets, or ROA, is an indicator of how profitable the company's operations are in comparison to its total assets. It gives an indication of how efficiently a company is using its assets to generate profit. ROA is calculated as Net income divided by total assets. A modification to the model is to add the interest expense back into the net income to use operating return before the cost of capital loans. (Catasús, Högberg & Johrén, 2017)

For the more subsidiary specific and comparison I have chosen to utilize Return on investment or ROI, to calculate the financial benefit of the subsidiaries for the parent company. This key indicator calculates the specific percentage of return per investment and is great for comparing profitability of the subsidiaries. This does not support the hypothesis of relevance of group accounting on decision making but it gives more perspective to the discussion. (Catasús, Högberg & Johrén, 2017)

Turnover per employee and Labor cost per employee are two key indicators that will be calculated and presented to the board of directors. The key indicators are interesting and relevant and will illustrate the difference in local personnel cost. AS the cost are lower the turnover per employee should also decrease as the price of hours billable and labor cost of the subsidiaries are substantially lower. These key indicators will not have a central part in the interview but are rather something to point out in the group financial statements.

$$\text{Return on Equity} = \frac{\text{Net income}}{\text{Shareholders Equity}}$$

$$\text{Equity Ratio} = \frac{\text{Total Equity}}{\text{Total Assets}}$$

$$\text{Profit margin} = \frac{\text{Net Income}}{\text{Revenue}}$$

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

$$\text{Return on Investment} = \frac{\text{(Gain from investment-cost of investment)}}{\text{Cost of investment}}$$

$$\text{Turnover per employee} = \frac{\text{Turnover}}{\text{Number of employees}}$$

$$\text{Labor cost per employee} = \frac{\text{Personnel Cost}}{\text{Number of employees}}$$

Figure 1, Summary of key indicators

3 Case company and empirical context

This study is centered on the decision making in a Finnish consulting company specializing in acoustics, noise, performance space and Audiovisual design. The primary service fields are:

Performance spaces

Building and room acoustics

Noise, vibration

Audio visual design

Noise and vibration exposure

Audio laboratories

Video and sound production

Measurements and calibrations.

The company has for chosen to remain anonymous in this thesis due to the sensitive subject matter, not to give an insight into their operations to competing companies.

The company is the number one expert in acoustics, noise abatement and audiovisual design in Finland and the Baltic countries (Case company website). It is an independent consulting corporation employing over 50 experts on four locations in Finland and in the subsidiaries. The main goal of the company’s vision is to create better living conditions by protecting people from environmental noise and promoting the safety and operability of facilities as well as their visual appearance. It is a company owned by the people who are employed by the company and actively participate in the company's projects. The company was founded in 1994. (Case company Website,) The company has experienced a sustainable growth in Finland as revenue and number of employees has risen over the years.

The company's board consists of 5 members including the chairman and all members of the board are owners of the company as well as employed by the company. All board members are participating in daily acoustic consulting and planning, so an assumption of the lack in knowledge of financial analysis must be presumed.

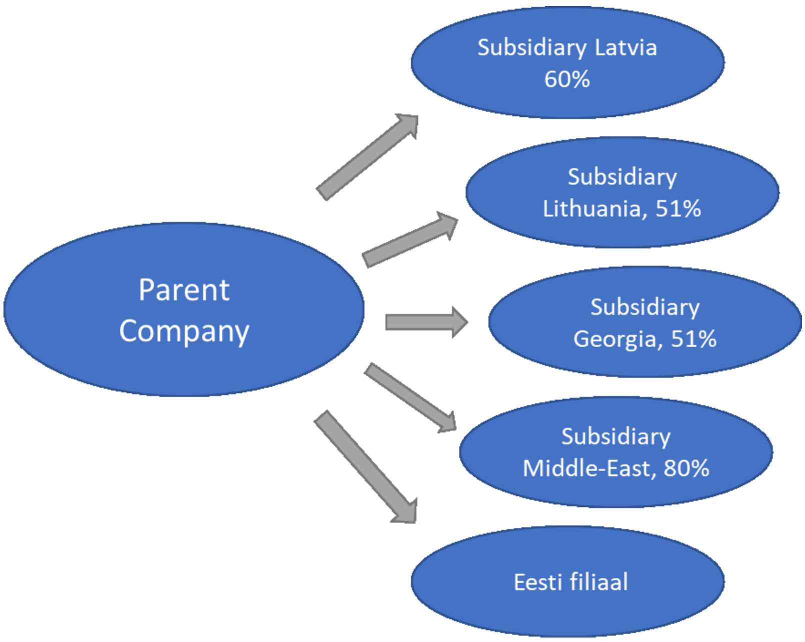

Figure 2, Case Company structure including ownership of subsidiaries

What makes the case company interesting as a survey object is that in the last two years the company has expanded internationally and has become a group with the headquarters in Finland. The subsidiaries are located in Estonia, Latvia, Lithuania, Georgia and the Middle East. The Estonian subsidiary operated until March of 2019 as a side office for the parent company office in Helsinki so all the financial information was merged into the financial statements of the parent company. The middle east office is currently still not operational as the company is registered but has not been able to open a bank account due to high level of bureaucracy and fear of money laundering as an international corporation owns a majority share of the company.

The parent company, which follows the rules of accounting in Finland, is not required by law to disclose group financial statements but is still considering making them. Making the group accounts takes time and resources, so the question for the company arises: is it worth it? Does the group accounts assist in decision making to a degree that it is worth it? The upside of the proactive group financial statements is that at this point the company can select the layout of the financial reports themselves, and not according to the Finnish accounting law.

The company's strategy regarding the subsidiaries is to have a local office which can be self-sustained and making profit in 5 years from establishment. The initial investment from the parent company is small as the equipment needed is leased to the subsidiary from the headquarters and as little additional capital as possible is invested. The subsidiaries have been established in countries that company have tried to establish a network of business but come to the realization that having a local subsidiary is essential for long-term success. The idea behind the small capital investment is if the local subsidiary does not manage to maintain operations, the loss for the parent company would not be substantial.

The board of directors consists of 5 members including the chairman of the board. All the members are long time employees of the company and are representing different field of business in the company. The average age is 53,6 years old and all members are male. The company has 400 shares in total of which the company owns 60 and the rest are owned by the employees. As stated previously there are no outside owners to the company and a clause in the shareholders agreement is that it is forbidden to sell shares to outside investors. The board of directors collectively own 156 shares of the 400, which represents 39% of the total stock of the company.

The board meets every two months or more frequently if there is cause. The common order of business is the managing directors update on the financial situation, human resource matters including recruitment and training, marketing, quality issues and matters regarding the subsidiaries. The managing directors update consists of current cash flow of the company and a comparison between the budget and up to date financials. Regarding the reporting from the subsidiaries the board has not established a continuous flow of financial information or

According to the yearly clock of the board, the type of work conducted by the board of directors is divided into quarters. The first quarter of the financial years (hereafter Q1) main target is to prepare the financial statements of the previous year, finalizing the budget and preparing for the general assembly of the company. The second quarter (Hereafter Q2) is reserved for organizing the board while the third quarter focusses on updating the strategy for the company and organizing the meeting of the shareholders. The fourth quarter is reserved for budgeting the following year. In addition to the board of directors the company has a managing director overseeing the financial performance of the company together with the outsourced accountant.

4 Research method

The research questions of the thesis revolve around the relevance of group accounting on internal decision making in a small case company, so therefore the study will rely on a case study as it focuses on the decision-making process, which takes place in a real-life situation (Yin, 1981). A case study, according to Yin (1981) is a systematic form of research that can utilize either quantitative or qualitative data, or even a combination of both. The case study does not use a particular data collection method as evidence may come from fieldwork, document analysis, verbal reports, interviews or observations.(Yin, 1981) The case study represents a research strategy to almost be compared with an experiment as it aims to examine a contemporary phenomenon in a real world setting (Yin,1981) The distinction in types of evidence, research strategy and data collection method are critical in defining case studies. According to Yin case studies can similarly to other research strategies be explanatory, descriptive or exploratory (Yin.1981) A key part to a case study is the researcher's position. The researches must distinguish note taking from narrative writing, which means that the researcher must stay objective and avoid any occurrence of leading the data elements to a more favorable outcome. (Yin, 1981)

Chris Voss, Nikos Tsikriktsis & Mark Frohlich (2002) state that a case study is conducted to strengthen the validity of the study, especially if the data sample is very small. The Case study enables a deeper understanding of the specific subject and explains details that otherwise would not come to light. (Voss, Tsikriktsis & Frolich, 2002) Through a case study you can examine how a research question plays out in the real world, and even go as far as Johan Graaf (2016) and examine how relevance plays out in the real world.

The results of a case study cannot be generalized to a broader population, as it is used for expanding and generalizing theories. The results cannot be seen as absolute as the results need verification from other studies, which verify the results as relevant. (Graaf, 2016)

4.1 Conducting a case research

According to Anol Bhattacherjee (2012) the case research should be divided into five key decisions. Firstly, the researcher must decide if the case study is the appropriate method for the study. As the case study method is “well-suited for studying complex organizational processes that involve multiple participants and interacting sequences of events (Bhattacherjee, 2012, p.94) this method is the right for this research.

Secondly, a researcher must find the appropriate unit for the case study. A case study can examine multiple units simultaneously or focus on a single unit. Bhattacherjee points out that a study in group decision making may combine individual-level constructs with group level constructs. (Bhattacherjee, 2012) It is from this notion that the combination method of individual interviews combined with group interviews came.

Thirdly, the researcher must establish if the study is a single-case or multiple-case design? The single-case design is more suitable for theory generation in a unique or extreme situation, whereas the multiple-case study is more suitable for theory testing. (Bhattacherjee, 2012) As this form off study has not been researched before (after thorough research no similar studies were found) a single-case design is more suitable for this study as the field has not been accessible for scientific investigation. (Bhattacherjee, 2012)

Fourth, the researcher must select what sites should be used for the case research. Bhattacherjee (2012) points this out as a critical issue for case research as selecting the wrong site may lead to wrong inferences. An example from Bhattacherjee’s (2012) book is “if the goal of the research is to understand the process of technology implementation in firms, a mix of large, mid-sized, and small firms should be selected to examine whether the technology implementation process differs with firm size” (Bhattacherjee, 2012, p.95). In this study the site selection is limited to the case company as the relevance of their group accounting in their decision-making process is studied, so adding a data set from other companies would not benefit the study.

The fifth and final one is data collection. Bhattacherjee (2012) summarizes it as "what techniques of data collection should be used in case research?" (Bhattacherjee, 2012, p.95) The most popular technique in case research is interviews with open ended or focused questions. Interviews can according to Bhattacherjee be corroborated with observations in meetings and documentation such as external accounts in the form of financial records or internal reports. (Bhattacherjee, 2012)

Defining the research questions is an important part of any scientific research. The research questions should in a positivist study be based on the theory presented, and in an interpretive study no theoretical assumptions or biases should be presented. The questions should be both theoretically and practically interesting and support some intuitive expectations in the results built derived from the research questions. As an interpretive study progresses the research questions and constructs may be changed, but this does not apply for a positivist study. Most case studies tend to be interpretive as it is an inductive technique, where the collected data can be "systematically analyzed and synthesized to allow concepts and patterns to emerge for the purpose of building new theories (Bhattacherjee, 2012, p.95)

After defining the research questions a researcher must create instruments and protocols for gathering data in the interviews. Bhattacherjee (2012) states that "since the primary mode of data collection in case studies is interviews, the interview protocol should be designed to guide the interview process (Bhattacherjee,2012, p.96) When it comes to the composition of the interview, the questions can be open ended, or unstructured which means that the interviewer can script the questions but does not know what the answer will be as answering options are not given. A close ended interview is the opposite where every question has a given set off answers. The interviewer must not deviate from the interview protocol or skip questions, but some minor sidesteps are allowed, if the reasoning behind it is to probe a deeper answer from the interviewed. In the interview setting the interviewer must keep a neutral tone in order to not lead the answers in a direction more beneficial to the study. (Bhattacherjee, 2012) In order to validate the answers, the researcher can do document analysis of internal reports, such as financial statements, annual reports and direct observation. (Bhattacherjee, 2012)

4.2 Grounded Theory

Analyzing data collected from interviews requires a method and the method chosen for this thesis is the grounded theory. The grounded theory is an inductive technique in analyzing qualitative data through coding or grouping the answers into different categories. (Bhattacherjee, 2012) The process starts with open coding aimed at identifying key ideas in the raw textual data. The researcher will try to identify key actions, events, perceptions or interactions through a line by line analysis. While coding in it important to also identify the characteristics of each concept, such as high and low to allow similar concepts to be grouped together later. Some of the concepts may be simple and unambiguous whilst other concepts might be complex and viewed differently by the interviewed, which may cause problems in the coding but all valid findings must be coded. What is important in the coding is that the data is being analyzed and coded alternatingly. (Bhattacherjee, 2012) After the coding comes the categorization of the data into higher sets of categories. This process can according to Bhattacherjee (2012) be done in two ways. Items can be straightly categorized into higher categories or the items can firstly be categorized into sub-categories and then the subcategories are grouped into higher categories. The higher categories represent a bigger picture and the categories are broad and generalizable. The third phase is called Axial Cording where the "categories and subcategories are assembled into causal relationships or hypotheses that can tentatively explain the phenomenon of interest" (Bhattacherjee, 2012, p. 114). "As conditions, actions/interactions, and consequences are identified, theoretical propositions start to emerge, and researchers can start explaining why a phenomenon occurs, under what conditions, and with what consequences" (Bhattacherjee, 2012, p.114). The third and final phase is selective coding which gives the researcher the possibility to identify central categories or core variables. (Bhattacherjee, 2012)

4.3 Reliability and validity

At this point the reliability and validity of this study must be discussed. The reliability measures to what degree the study is considered reliable, as in if you construct the same study multiple times will you get the same kind of answer, on the assumption that the underlying phenomenon is not changing. (Bhattacherjee, 2012) As reliability is key for a study's success some sources of unreliability can be identified. One of the key sources is the observer's subjectivity. Two observers might have different opinions how to measure something or simply a different scale to things, so to stay objective to study and report all findings is a measure to increase reliability. A second source is asking imprecise questions. Questions that allow the interviewed to give a more in-depth answer and are beneficiary for the whole scale of the study, as in more data, are encouraged if the questions are precise. The third source is asking questions about subject that the interviewed does not care about or know about. This should not be an issue as the interviewed are all members of the board so they should have an interest in the information provided if it could improve their decision making. To improve the reliability of this study the interview will also be constructed with easier wording so that the meaning of questions cannot be misinterpreted. A remark regarding the reliability of this study is the reliability of the interviewed. Respondents might jeopardize the reliability as the answers to the questions might differ if asked in another way. (Bhattacherjee, 2012)

Validity refers to how accurately a measure in the study measures the construct it is supposed to measure. This study will focus on asking valid questions in the interview process that are relevant for the study. Measurement of the validity will focus on face-validity or strive to ask questions which validity cannot be put in question.

4.4 Analytic model

The purpose of this thesis to examine the relevance and added value of the group profit and loss statement and balance sheet bring to the decision process of the management. The literature and empirical context will be supported by document analysis and interviews conducted within the company. The first step is to make the

Group balance sheet and financial statements together with the company for the first time after the acquisition and founding of 5 subsidiaries. This step will be followed by interviewing and observing the decision-making process of the management of the company to see how relevant the group accounting is to the decision-making process. The interviews will be conducted separately where the individuals firstly respond to the types of decision they usually make and how the group accounting affects the process. As a support to the interview key indicators will be presented for the separate companies and the group to examine how they affect the decision making of the board of directors.

The interviews will be semi structured, which means that a list of questions will be prepared beforehand. In a Semi-structured interview, the interviewed person can form the answers on their own and still gives the interviewer the option to ask follow up questions if the answer from the interviewed raises further interest. The interview questions are based on the theoretical knowledge gathered in the literature review and own perception on central part of the specific company's decision making. The goal of the interviews is to identify central factors that are linked to the decision-making process and financial decision making.

The interviews will be done in Finnish as the mother tongue of the members of the board is Finnish

The interviews will be recorded and transcribed using a "24-hour rule", so that the detailed notes will be completed 24 hours after the interview so that no data or impressions are lost.

The data will be analyzed using the grounded theory, and the first categorizations of the answers will be done in the main subject areas of the interview guide and from there they will be analyzed further, and the results will be presented in section 6. As the basic form of grounded theory assumes that the researcher has no prior knowledge of the situation, it is important to point out that in this research, the researcher has a large amount of prior knowledge of the company. The grounded theory analysis of this thesis is based on the categorization of the responses in the interview and not on the assumption of a researcher in a situation where no prior knowledge of the subject is held.

The whole interview guide is also based on descriptive decision theory where the aim is to explore how decisions are made. It aims to describe the behavior of the subjects as accurately as possible in their aim for rational decision making. The descriptive decision theory is primarily inductive as it searches for patterns in observations and develops explanations.

One of the key parts of the interviews is the group financial statements. The financial statements in question are the group financial statement of 2018 including the profit and loss statements and the balance sheet and the profit and loss statements for the first two quarters of 2019. The financial statements of 2018 are to discuss the impact of the subsidiaries on the overall performance of the company. The Profit and Loss statement for Q1 and Q2 will hopefully create discussion regarding the short-term profitability and the volatility of the market in the respective local country. As previously mentioned, the currency translations are only applied to the Georgian subsidiary and will be utilized through the current method where the translation difference is shown directly in the equity.

The group financial statement of 2018 will contain the Estonian subsidiary as the side office it was at the time and the Middle-East office will not be included as the bank account is not active so the company has no operations and are currently still operating under another company not linked to the company The Estonian Profit and loss statement will be introduced in the Q2 financial statement as a new company, and accordingly after this point the true impact of this corporatization of the side office will be visible.

For the Q1 and Q2 financial statements the Georgian Lari will be translated using the respective months average exchange rate. This differs from the yearly financial statements where the currency translations regarding the profit and loss statement are translated using the yearly average, but the monthly average is used to illustrate the volatility in the local currency when translating into Euro.

5 Research

In this chapter the results of the interviews will be present according to the interview guide to get the most essential information presented in a logical way. The chapter is divided into six different subcategories. The results will be analyzed and discussed in the following chapter.

The group financial statements presented to the board of directors in this thesis were the first of their kind for the case company. The structure of the financial statements were according to the Finnish GAAP regarding group financial statements. As the parent company has founded all the subsidiaries there were no accumulated Goodwill and as the companies are recently founded the subsidiaries did not pay any dividends. As the company does not move inventory between companies there were also no internal profit.

The Financial statements of the subsidiaries are very basic as the balance sheet only consists of machinery and accounts receivables from client on the active side while the passive side is formed of the shareholders capital and purchasing debt. There are no accruals or appropriations present in the financial statements.

The companies are so recently founded so the volatility in their results are quite apparent. As shown in the key indicators below the size of their operations is not as stable as the parent company has been for many years with returning clients and larger contracts providing revenue over multiple financial years. One of the subsidiaries experienced a revenue growth of 60 % in the first 6 months of 2019 compared to the full financial year of 2018, while another was trailing the 2018 numbers by 37%.

The largest expenses for the subsidiaries are salary expenses, which are expected, due to the companies performing consulting services to clients.

The effect of the currency translation was insignificant as the amounts the Georgian accounting brought in were small and the difference in exchange rate were little and the total effect is described in permille, in comparison to the whole group.

5.1 Background of the interviewed

The interview group for this thesis is the board of directors for the company and after a few conducted interviews the company Managing director (hence after referred to as MD) was also chosen for an interview due to their central position in the presentation of the financial information for the board. The total amount of interviews was six including the MD of the company and firstly they were asked for their own background and how long the have been with the company. The interviewed were also asked for their financial education or experience in the work of the board of directors.

The chairman of the board is one of the company’s founders and has been with the company and on the board since the founding. He is currently the longest sitting board member and the only ordinary board member with a “approved board member” education (hence after referred to as ABM). His education is a Master of science in acoustics. Individual Z is an Architect by education and a senior consultant in the company. He has been with the company for 23 years and this is his second time on the board. He has no additional financial education, but previously he was an entrepreneur until the point when his company was merged together with the case company in 1995-1996. Individual X is a Master of Science in acoustics and a senior consultant with the company since 2005. He has now been on the board for 5 years. Individual C is an engineer in theatre technics and has been with the company for 13 years and on the board for 6 years. He is currently in turn to step down from the board to give way for a new individual. Individual V is a Master of science in acoustics and the deputy managing director. He has been with the company for 20 years and is to complete the ADM course this fall. The MD has been with the company since 2005 and acted as the MD of the company since 2012. He is a telecommunications engineer and has completed the ADM course together with the chambers of commerce managing director education so he can be stated as the member who participates in the work with the board who has the most education in the field.

5.2 Work on the Board of directors

This segment presents the working process of the board of directors in for example how much of the work done is financial and do the individuals feel that it is challenging, and on what information are the financial decisions made. Going forward from this point the answers will be presented using the grounded theory as explained in chapter 4.2.

When asked for the amount of financial work on the board there was no unified opinion, as the interviewed saw the question from different angles. The board could agree that at least a big part of the work is financial, but some members feel that all work is financial as all of the decisions and that all discussions link back to financials while some felt that the financial work is centered around the Q4 budget discussions and the Q1 yearly financial statements. The boards primary task is strategic planning as it is responsible for the financial performance of the company together with the MD. With this responsibility comes a great deal of financial decision making and for example all the larger investments decisions, such as investing in new subsidiaries or larger equipment purchases are made on the board. One individual stated that directly 30-50% of the boards work is financial, but everything is linked to financials such as well-being at work, internal projects and training, so all decisions are financial decisions.

The goal of the board and the MD is to have all larger investments in the budget so that they don’t have to separately decide on these matters, but off course there are deviations.

The financial information presented and discussed at the board meetings consists of the MD update on the progress. The presentation consists of a comparison between the previous year to the same time period, comparison to the budget and the actual numbers for the present period. The financial knowledge of the board is admittedly quite low and the board is fully dependent on the presentation from the MD

"*The board relies heavily on the MD presentation for the financials of the company, and as the financial knowledge is lacking within the board, I feel as this is not good board work"* Individual on the board

The interviewed were quite unanimous in that the financial work of the board is perceived as challenging. The financial training of the individuals on the board is low and they rely heavily on the MD for the presentation of the financials.

One individual stated that he has taken it upon himself to learn more financial planning and understanding as "*although I haven't got a financial degree, the board is responsible for the well-being of the company*, *so I feel that it has been hugely beneficial for me to educate myself".*

The MD of the company called for more support in his work as he feels as his financial leadership goes in two directions, towards the board of directors and towards the management. This is not an ideal situation as one individual carries the whole financial planning and financial presentation of the company.

Some other individuals stated outside factors in the challenges of the board such as the chairman, who stated that "*As the company relies on other entrepreneurs, such as construction companies, for work, it makes the financial planning for the company very complex."* A specific challenge mentioned is the estimation of the growth.

The board does not specifically use the financial statements for decision making as it relies heavily on internal reports such as cost center analysis, budget comparison, the orderbook and finally the trends in the industry.

"The board does not directly use financial statements for decision making as the knowledge to read them is not high enough"

All the financial decision making is off course guided by the cash flow so that is key.

"*Cash flow is the most important part as it is the pulse that keeps us alive*"

One part of decision theory and agent theory that comes into effect in this thesis is Moral Hazard. The interviewed were asked if they feel that during the time for dividend decisions and payouts if there is a feel that somebody is pulling for their own benefit. The interesting part is that the answers were quite mixed where some of the respondents felt that it is not possible due to the very wide ownership base for anybody to really have a personal gain to obtain, while some felt that the presentation of the financial statements is angled in such a way that it benefited their personal goal. There was no single category in the answers and some even feel that previously, before more individuals were allowed to buy stocks in the company that the strive for personal benefit was larger, while others stated that the company has always strived for growth instead of payout. In the current state after some thought most of the board still agreed on that the current ownership structure and the taxation of dividends in Finland encourages moderate dividend payouts. The one thing the interviewed could agree on was that the board is too reliant on the presentation and analysis from the MD. A side remark from of the interviewed was that the information flow from the MD is too slow so that making rational and well-informed decisions is hard.

As mentioned, the foundation of information presented to the board comes from the MD

Most of the board feel that the information presented to them in the current state is sufficient but vague, so the board also crave more information for specific decision, such as investments. Previously some special decisions, that have deviated from the routine decisions on the board, have been made on quite limited information where the decision is made using the individual's previous experiences and reference points.

"There could be more information for decision making but I don't know if that is possible".

From the MD: s point of view the information presented is sufficient, but the question is perception. How is the information precepted and is it understood at all and is the decision making based on objective facts or is it based on the individual's previous experiences?

5.3 Financial statements process

The interviewed were asked about the financial statement process and how the work of the board is affected. What kind of decisions, routine or special, are done based on the financial statements and finally about the challenges in the process and how they monitor the financial performance of the companies during the financial year.

According to the interviewed the board does not participate in the preparations of the financial statements in any way as it is decided on by the accountant and the MD. All reservations and deferrals and decided primarily by the MD and on rare occasions they are discussed by the board. One of the few task the board has taken upon itself in the financial statements process is the recommendation for the dividend amount and possibly even some bonus payouts for the employees, although the basis for the bonus payouts are decided already at the start of the previous financial year. The board off course has a keen interest in the success and performance of the company compared to the budget, so there is some discussion regarding the financial statements when the first drafts are available, but the board does not have a specific role in the making of the financial statements. There were no specific mentions among the members of the board of challenges as the board has no significant role in the process, but the MD mentioned that most of the challenges are spread out during the financial year such as the comparable financial numbers. Some specific challenges regarding the financial statements are the valuation of hours worked and not yet billed and holiday pay debt accruals.

One of the most interesting discussion linking to the subject of this thesis is regarding the monitoring of the financial performance of the parent company and the subsidiaries during the financial year. No one mentioned any monitoring of the subsidiaries during the financial year until asked for a comment. At the present state the board receives the MD:s report before the board meeting and then it is processed and discussed during the meeting. The report delivered to the board consists of the previously mentioned and if there are any deviations, they are reported and a central part is the cash flow development. Another report that is of special interest to the board is the result and progress per team and business unit. From the yearly financial reports the board can analyze the success of, for example, new recruitments, but at the present state there are no such in detail reports from the subsidiaries. One individual stated that the monitoring of subsidiaries is not I high priority as the operations are not so large, so the effect of them on the parent company is quite insignificant. The current reporting form the subsidiaries during the financial year consist of verbal updates, such as how they are doing, the amount of projects and possible new recruitments from the chairman of the board, who is also a member or chairman in all the subsidiaries board of directors. But the MD is not worried as the "*Subsidiaries are still so recently founded, and they are still learning"*. One of the only financial impacts the subsidiaries have on the parent company is if they haven't paid their equipment leasing invoices to the parent company.

5.4 Group financial statements

In a preparation for the next segment regarding decision making a small segment on group financial statements and the effect of it on the result of the parent company was conducted.

Among the board of directors there was no real understanding of what group financial statements are. The basic idea of presenting all the separate financials in one report was a common level of understanding but the process of consolidation and minority shares were new. The individuals with the ABM course had a better understanding of the effects as some individuals claimed that as they are not so educated in the financial statements overall, the idea of group financial statements seem very hard.

As the knowledge of the group financial statements was so low the prediction on what the effect of the group financial statements would be compared to the parent company statements differed. Some believed that the addition to the revenue and profit would be around 20% while some believed it would break even or have no effect at all.

As the group financial statements made for this thesis are voluntary and as an internal report, the interviewed were asked if they believe that in the future it would be mandatory for the company to make group financial statements and the responses were very spread out. The most common answer was that probably yes and in approximately 10 years' time, while the source of growth was more divided. Most of the board could agree that the subsidiaries will be what grows the company as the local market has a full supply of competing companies, while the subsidiaries are pioneers in their market, so the limitations on growth are not yet known. Other board members believed that the growth would come from the local market and the possibility of branching out was also stated, making the company a conglomerate.

5.5 Decision Making

Yearly decisions made by the board include the payment of dividend and, if applicable, bonuses and recruitment of new employees. Some larger, special decisions, that the board has faced, are for example the investment in a calibration lab, and at the present time, they are investigating on opening an acoustics laboratory in Estonia. The information from the group financial statements were supposed to be added to the decision-making process regarding, for example, the calibration lab, to see if the decision making would have been any different and to look for responses.

The first idea for this segment was to give the interviewed some case scenarios of the decisions the board normally makes and ask for a similar decision with the addition of the group financial statements. Furthermore, some specific questions of the subsidiaries and willingness to further invest into subsidiaries would be asked. Due to the lack of financial knowledge in the board, this form of discussion would not have gotten any relevant results, as most of the board admitted to relying on the MD for their financial monitoring and then as a group discussing the relevant solutions.

The researcher decided to change the approach to presenting the financial statements of the subsidiaries and then the consolidated group financial statements to the individuals on the board of directors. The idea of the group interview was also left out as it would not yield any relevant results, due to the same reasoning as above.

The financial statements were made and then presented in the individual interviews and then afterwards discussed for reactions and opinions regarding the presented material.

The interviewed were expecting the financial outcome of the 2018 financial year reports and it did not come as a big surprise that the whole groups profit was slightly lower than the parent companies due to the big losses in 2 of the 3 subsidiaries. The concerns were brushed aside as the companies were so recently founded and have large expenses from the salaries and the leased equipment from the parent company. Some concerned remarks were made regarding the high cost of equipment compared to the local revenues and if an alternative solution to the equipment purchases had to be found. At the current state the benefit of having the subsidiaries in countries with lower salaries and costs is overturned by the equipment which is bought at the Finnish price level and then leased to the subsidiaries.

Other board members pointed out the low salary expense in comparison to the Finnish expense as a big surprise. As one of the fundamental ideas for the subsidiaries is to have the subsidiaries in countries where the salaries are lower than the Finnish salaries the surprise of how much lower they actually are startled the board. Actually, the explanation to at least one of the subsidiaries was that he had not paid himself in order to get the company started and on a secure ground. The labour cost per employee is significantly lower in the subsidiaries so the turnover / employee has a large difference from only comparing the parent company.

Some of the board members saw the presentation of the financial data as evidence of their suspicion that the time spent on the subsidiaries is mostly lost, as the profits or even in some case losses do not give value to the time spent by the individuals in comparison if they focused on billable work in the parent company. The financial input from the parent company to the subsidiaries is low, but the amount of work put in and overall added stress of this work makes the result a disappointment.

Of the subsidiaries Georgia was the largest surprise to the board members. There is a very interesting situation where they minority owners in Georgia have not paid their part of the share capital to this date as it is not mandatory in Georgia to have a share capital in a company. This fact came as a surprise to the board together with their lower revenue and higher salaries in comparison to the other subsidiaries.

When presenting the financial statements to the individual board members a showing in lack of knowledge was apparent, until the discussions were on the key indicators. As one of the primary ways of monitoring the company's financial performance in the present state is through graphs and key indicators, the board felt that this was information they could understand. As the Key indicators, according to Catasús, Högberg & Johren (2017) are a simplified construct of reality and an easier way to present financial information or financial development around.

The most common comment regarding the key indicators were that the overall effect on the parent company is insignificant. As the operations in the subsidiaries is so much smaller than the parent the effect is minimal. For example, the -65,5% and -53,5% profit margins of two subsidiaries only lower the overall profit margin from 2,3 % in the parent company to 2,1 % in the group statements. The problem the company faces is that most of the local managers are work from an entrepreneurial perspective, so the financial leadership is lacking and all that matters is if there is money in the bank account or not.

One of the interesting business models that developed through the conversations is to run the subsidiaries with more freelance work than previously. As can be seen in Lithuania's key indicators, the turnover and labor cost differ substantially from the others as they had a freelance employee.

	Parent	Latvia	Lithuania	Georgia	Group
Return on Equity	15.3%	-207.2%	79.0%	-204.5%	14.3%
Equity Ratio	45.7%	-101.0%	44.5%	-15.7%	44.4%
Profit Margin	2.3%	-65.5%	9.3%	-53.5%	2.1%
Return on Assets	7.0%	-209.4%	35.1%	-32.2%	6.4%
Return on Investment					
Turnover per employee	€ 106,642.04	€ 9,210.00	€ 45,937.00	€ 4,663.13	€ 93,158.07
Labour cost per employee	€ (65,419.90)	€ (7,746.50)	€ (7,640.50)	€ (5,475.61)	€ (57,067.66)

Figure 3 2018 key indicators

Overall the financial numbers of the Q1 and Q2 report were found to be much more interesting as it is not as historical as the 2018 financial numbers.

It was pointed out that the billing cycle comes into effect and affects the Finnish numbers for Q1 and Q2 heavily, which does not make the numbers comparable over periods. Previously the parent company net profit was dependent on the result from the Estonian side office and it was particularly interesting for the board to see the difference it made now that it is a separate subsidiary. The financial reports and key indicators are not directly comparable, as the Estonian subsidiary was registered as a company mid-March of 2019 so as all the other subsidiaries have full reports from 1.1-30.6 the Estonian subsidiary could only deliver reports for a shorter period.

One specific challenge in the financial planning and decision making for the company is the billing cycle. For many years the board had no answer to why the company made a loss in the start of the year which then corrected itself towards the end of the year, but in later years they have been able to pinpoint that the billing for the company is very cyclical and that although the company seems almost insolvent at times there is no need for worry is this is a natural phenomenon in their field of business. This phenomenon is highlighted in the Q1 & Q2 key indicators below, as the company's billing and revenue is trailing behind while the costs are on a similar level to the previous year. The cyclical billing cycle has a large impact on the discussion regarding dividend payouts as the company managed to make a profit for the financial year and has good cash balance in the start of the year. But when the general meeting of shareholders decides on the board's recommendation regarding the payout the cash balance might be negative.

One of the board members stated in relation to the graph below that "*the key indicators cannot explain anything, you can just draw a conclusion that something is wrong*".

	Parent	Estonia	Latvia	Lithuania	Georgia	Group
Return on Equity	-844.1%	11.8%	474.2%	56.6%	68.3%	-651.1%
Equity Ratio	7.1%	12.1%	10.9%	74.6%	-34.8%	5.8%
Profit Margin	-30.0%	1.1%	25.5%	47.3%	-34.5%	-27.9%
Return on Assets	-59.6%	1.4%	51.7%	42.2%	-23.2%	-55.3%
Turnover per employee	€ 40,750.70	€ 10,495.31	€ 14,465.00	€ 14,908.00	€ 4,837.52	€ 32,933.56
Labour cost per employee	€ (34,590.72)	€ (7,046.27)	€ (5,217.00)	€ (2,332.50)	€ (4,404.88)	€ (27,300.56)

Figure 4 Q1 & Q2 key indicators

Some of the board members mentioned the opportunity of factoring for the subsidiaries as the account's receivables were on average 31% of the revenue, and the cash-balance was low.

The board members agreed that the way of presenting the financial numbers was very interesting and gave a very clear overlook on the specific companies, as it was the working files containing all the raw financial data and consolidations that was presented and discussed. Compared to the present reporting the board members did not consider the presented information as over information, due to the lacking present reporting, which means that the previous reporting could be considered as under information. Overall the key indicators combined with the financial statements were considered to be useful.

A great comment from the board members was that the data will be much more useful when there is a comparison period, and as this was the first time it was done that was not a possibility in this case.

5.6 Personal preference

Finally, the board members were asked for their personal preference to the group accounting and how it affects their decision making. What motivates them in their work on the board was also asked.

~85% of the board found the group financial statements to be highly useful or even mandatory for the company going forward. As the reporting in the current state for the subsidiaries is nonexistent, so all improvements in that sense are considered essential.

The difference came in the answers regarding the timing of the financial statements. Some of the board members would like to have the full group consolidated financial statements quarterly while some of the board members would like to have them yearly with profit and loss statements every quarter.

It was stated on multiple occasions that the group financial statements would be more useful if the board would know how to read them, which was precepted as lack of education. An idea presented towards a more user-friendly presentation was to make the financial information into similar graphs as the current financial presentations to the board.

When asked about the usefulness and relevance for the decision making the answers were once again very scattered, as some of the board felt that the group financial statements gave some sought after perspective on the group as the numerical progress was visible, which would lead to more well informed discussions and decision on the board. Others felt that, as previously mentioned, the board has so little financial expertise that it cannot utilize the group financial statements.

One question that was conceived during the interviews were to ask about the scope of the group financial statements. As most of the board were thrilled to see the financial statements of the subsidiaries and the group consolidations for the first time in one report, the question emerged if they were thrilled to see the group financial statements or just see an actual report from the subsidiaries. After some thought, the majority of the board agreed that it is not the group financial statements that are interesting, as the interesting part is actually to get financial reporting from the subsidiaries, and in Georgia's case to get the report in Euros. The thought of the group financial statements was not dismissed, but the usefulness at the present time was.

6 Result analysis

In this chapter the research will be analyzed and linked back to the theory presented earlier in the thesis. The result analysis will be divided into categories to the categories of the interview to give an accurate representation.

6.1 Background of the interviewed

The background of the interviewed individuals has a large impact on their decision making. This thesis has focused on the relevance of group financial statements for internal decision making in a company's board, so how the individuals process the information presented is of paramount importance. If an individual has experience or education in the field, then their understanding of the information presented is significantly improved. When asked about the financial education or training for their work on the board of directors, only the chairman and the CEO have completed the ADM education. Some of the current board members have signed up to take the course in the fall of 2019 but the overall financial experience on the board is quite low. Some of the board members claimed experience from other boards such as housing co-operatives or previous entrepreneurial background. Based on the interviews the board's ability to utilize the group financial statements can be doubted and this impact the relevance.

As the board members state that they are not comfortable with the analysis of the parent company financial data due to their lacking knowledge in the field and the heavy reliance on the MD:s financial presentation.

6.2 Financial decision making

The financial decision making in the company is currently lead by the MD through his presentation of the financial progress of the company. The understanding of the information presented is a concern for the MD as he said that "*I am not sure which weighs more in the decision making, the objective data or own personal preference*" But how does the board make the decision, or what information guides the financial decision making? For this case company the financial statements are not analyzed in depth as there is not enough experience, so it is other internal reports and presentations made by the MD.

Research question 1: What financial information guides the internal decision making in companies?

For the case company there is no specific financial information or source that provides the foundation for decision making. As mentioned by the board members, and depending on the decision at hand, some of the most used financial information is the budget analysis and cost center analysis. The company does not normally make financial decisions in the moment as they are decided in the budget. Some special decision might occur during the financial year an and that point a comprehensive information package will be made for the board. Although this process has seen some setbacks in the previous years, the goal is to give the board all the information they need. Mostly the board agreed that raw financial statements are seldomly used as key indicators are a much easier way to present financial development. The need for financial statements was not highlighted by the board to the same extent as cash flow statements, cost center analysis and the orderbook for the company. Other supplementary data point are the budget analysis and trends in the industry. So, when discussing how the board is making decision the group financial statements have little impact. The attitude towards the subsidiaries can be describes as passive action as stated by Growth and Byers (1996). The MD stated that "*I am not worried, they are still learning*" when asked about the lack of reporting from the subsidiaries is a clear sign of passive action. As the subsidiaries become more established the reporting will surely increase, but at the time of this thesis the reporting was non-existent.

One of the subjects in the interview was moral hazard. The researcher found it highly relevant as the financial performance and financial incentive are discussed. As there is a dislike for the subsidiaries inside the company as they are time consuming and not yet rewarding some of the board members might want to cut the subsidiaries from the current organizational structure and focus on the parent company. This does not fall under moral hazard

Previously there was a feeling inside the board that the financial data of the company was presented in a way that benefited the pay-out of dividends and bonuses to the employees but now, as the ownership of the company has diversified and more employees own a part of the company, maximizing the own individuals short term gain is not possible. If, for example, an individual would manipulate the financial data in a way that a higher dividend pay-out was possible, the person would not benefit as much as before. The dividend amount is spread out to so many individuals and as the Finnish tax code encourages a moderate pay-out, the financial gain is minor.

One of the most significant subjects, as stated by the board, which makes the rational decision making harder is the lack of time. As the individuals on the board have full time jobs, and the board work is mostly additional work so the time to go over reports and prepare for meetings is hindered. As there is a lack of time there is also a lack of understanding the information. The main thing is that if the information is not understood properly it cannot become relevant to your own decision making.

6.3 Relevance of group financial statements

The group financial statements have some substantial upsides for the company, as it is for example easier for the company to estimate the growth of the group in comparison to the present reporting. As Niskanen, Kinnunen & Kasanen (1998) stated the group financial statements and annual accounts are informative as they reflect the economic performance of the whole group while the parent company accounts are relevant for payments of dividend (Jyrki Niskanen, Juha Kinnunen & Eero Kasanen, 1998)

But how relevant are the Group Financial Statements for internal decision making?

One of the main problems with the group financial statements that were made for this thesis is the trustworthiness of the information as stated by Brännback & Rantanen (1994). How the information is presented has a deep impact on the decision made from the information and if the information is made relevant and trustworthy it is easier for the management to make well informed decisions based on it. The issue with decision in the management of a company is that the management often approaches decision making based on intuition and consequently solve problems in an “in the moment” manner. (Brännback & Rantanen, 1994)

The information gathered can be questioned as some information is impossible to differentiate, such as the hours work for the subsidiaries that have not been billed. The subsidiaries receive much pro-bono work from the parent company and in the present state these hours are not documented. As the group financial consolidation is built around the idea that all internal work is eliminated the consolidation process is faulty. Some other issues are the Estonian financial statements consolidated, as they are from mid-March forward and does not represent the same time period as the other reports.

The board of the company mostly agreed that the group financial statements as a report for financial decision making is highly useful, if not even mandatory. The extent of the report is the issue they could not agree on. As previously stated, some of the board members would like to have the full consolidated financial statements every quarter and some would like the same information on a yearly basis. However, as the understanding of the information is so low, the researcher concluded that the one improvement the board is after, is an increase in reporting, not the group financial statements. The follow up on the subsidiaries is practically non-existent right now so the follow up must be increased, but the group accounting can be considered too much. In the yearly accounting it is favorable to see the development of the assets and equity but in the quarterly reports a non-consolidated profit & loss statement from revenue to EBIT is sufficient.

Some of the board members stated that the effect on their decision making is that the decisions feel more enlightened now. This statement is due to this form of report has not previously been manufactured, so it can be argued that the time for a report was duly on time. The enthusiasm of the interviewed towards the report also comes down to the fact that this was the first time they received a report like this. When presented with new information in addition to existing information a discussion whether it is over or under information can be presented. As the current reporting of from the subsidiaries is non-existent, the addition of group financial statements brings the information to a desired level.

In conclusion the researcher would say that the financial reporting of the company should also include the subsidiaries, although the company is not run like a group. The group accounting or at least reporting increases awareness of the progress in the subsidiaries, and therefore increases the well-informed decision making in the company. The added key indicators were not concluded as over information, as they rather seemed to be the financial information that the board could understand, but it comes down to the financial awareness of the individual.

Can the group accounting and financial statements be used as base for future financial decision?

The key is to understand the financial numbers of the subsidiaries to utilize them in the decision-making process. At the present time the usefulness of the group financial statements for the case company is very low. The reliance of on MD for financial reporting and lack of knowledge make the group financial statements obsolete.

7 Final discussion

From the researcher's point of view this thesis did not yield the results the researcher was hoping for as the subject foundation in the case company was at a much lower level then anticipated when starting. The results mentioned are regarding the depth of the financial discussion. The researcher feels that the discussions were on a basic level which does not support the strive for a in depth analysis. The level of financial monitoring of the subsidiaries and financial experience on the board were assumed at the beginning of the thesis and during the interviews the true level was discovered, which had an impact on the subject matter of the interviews. If the same research would be done in a few years, the results might differ significantly different as the board of directors has a circulation system for the members so some of the current members are stepping down and giving space for new board members. As the board is discussing that all future board members should take the ABM course before joining the board, this would substantially increase the financial awareness inside the board.

Another issue with the group financial statements for this specific case company is the size of the subsidiaries in comparison to the parent company. As the group financial statements present the fact that even though two of the subsidiaries made in a negative profit in excess of 50% the impact on the parent company's profit margin was 0,2%. This means that when discussing relevance to decision making the impact of the group companies is insignificant.

The problem with a case study is the target group. This thesis had a very specific target group and subject field, and it cannot be replicated as we are discussing the personal preference among a very small group of individuals. The relevance of group financial statements for internal decision making, in this thesis, is very low, but if the study had med made with a different case company the results might have been substantially different.

Finally, it can be stated that this thesis has contributed to the understanding of decision making in small companies. As larger corporations and groups can have a specifically formed board that focuses solely on the financial decision making or to be the highest authority in a company, most smaller companies have boards that are made up from the employees and owners of the company. The financial knowledge in these boards of directors might not always be at the highest possible level, but they are coping.

From a larger perspective it can be discussed that the findings of this research are significant. Niskanen, Kinnunen & Kasanen (1998) argue that the parent company financial statements are only relevant for payment of dividend and that the Group accounting should be the primary financial statements, as they reflect the whole economic entity. Muller (2011) questions the need for parent company financial statements, and the result of this research contradicts both those researches. For larger economic entities, the group financial statements can be assumed to have a large relevance, but for smaller entities, the effect is reversed. As concluded in this research, the relevance of the group financial statements for the case company is very low, due to lacking financial knowledge among the board.

7.1 Future studies

Based on this thesis the results of this case study should be broadened to a wider population for example through a survey, where more similarly sized companies with subsidiaries would be the point of interest. As the financial knowledge in this board of directors is lacking a conclusion regarding all companies cannot be taken. Therefore, a larger survey should be carried out.

Future studies that are of importance to the field of internal decision making is the subject material presented to the board. As the subsidiaries of the case company does not provide cash flow statements, a research topic could be the best way for voluntary subsidiary reporting. The different impact of cash flow statements and profit & loss statements could be discussed as according to Francis and Schipper the relevance of cash flow statements is higher. Another research topic that arises through this thesis is the relevance of historical acquisition cost compared to fair value accounting on internal decision making. Overall the subject field that is relevance of financial data on internal decision making is a very limited one, so all research supports the field.

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Appendix 1, Introduction letter, English

Hi!

I am writing my master's thesis and the subject is the Relevance of group accounting on internal decision making.

The idea to this came from the company itself as it is now a group, but according to the Finnish legislation on accounting, is not required to make the group financial statements. The question is would it be relevant for the company to make the group financial statements for the internal decision-making process of the board of directors. This subject has not been studied before and you would be a part in a pilot project, as researchers have not had access to study the internal decision-making process when the subject has been voluntary group financial statements.

My plan is to interview the members of the board individually and then conduct a group interview in a meeting of the board. The interview will be semi-structured and will allow you to raise your own opinions.

How does the group accounting differ from normal parent company accounting?

In the group accounting the assets, liabilities and equity of the parent company and all subsidiaries will be combined into one so that they represent a single entity. This thought can be summarized as "One Wallet" All the internal transactions of the group, such as internal shares, sales, receivables and liabilities, will be eliminated.

The final product is a financial statement where the whole group is one company. This process will alter the key indicators of the company and this is one of the subjects in the interview. What thoughts do the altered key indicators raise?

I am also interested in the boards work and financial decision making and finally personal visions for the company's future

I hope this will raise your interest and we can have some great conversations!

Best regards

Jonas Möller

Appendix 2, Introduction letter, Finnish

Hei!

Olen tällä hetkellä tekemässä minun Pro Gradu tutkintoani, ja aiheena on Konsernitilinpäätöksen relevanssi sisäiseen päätöksentekoon.

Idea tähän tuli siitä, kun yritys nykyään on konserni, mutta suomen kirjanpitolain mukaan yritys ei ole velvollinen laatimaan konsernitilinpäätöstä, niin olisiko konsernitilinpäätöksellä relevanssia yrityksen hallituksen sisäiseen päätöksentekoon. Tätä aihealuetta ei ole tutkittu ennen ja olisitte mukaan niin sanotussa pilottihankkeessa, koska tutkijalla ei ole ennen ollut pääsyä tutkimaan yrityksen sisäistä päätöksentekoa, kun aihealueena on ollut vapaaehtoinen konsernitilinpäätös.

Suunnitelmani on haastatella hallituksen jäsenet yksitellen ja lopuksi tehdä ryhmähaastattelu hallituksen kokouksessa. Haastattelu on puolistrukturoitu ja antaa teille myös mahdollisuuden nostaa omia mielipiteitä esiin.

Eli kuuntelen mielelläni sinun toivomuksiasi koskien haastatteluajankohtaa elokuun aikana.

Miten konsernitilinpäätös eroaa normaalista emoyhtiön tilinpäätöksestä?

Konsernitilinpäätökseen yhdistetään emoyhtiön ja kaikkien tytäryhtiöiden omaisuuserät, oma pääoma ja velat siten että ne edustavat yhtä yritystä tai kokonaisuutta. Tämän ajatuksen voi tiivistää ajatukseen ”One Wallet”. Kaikki konsernin sisäiset tapahtumat eliminoidaan kuten omistusosuudet ja osakkeet, myynti, saamiset ja velat. Lopputuloksena on siis tilinpäätös siten että konserni on yksi yritys. Tämä tulee hieman muuttamaan tunnuslukuja ja tämä on yksi haastattelun aihealueista. Mitä ajatuksia tunnuslukujen muutoksen saavat aikaan?

Olen myös kiinnostunut hallitustyöstä ja taloudellisen päätösteon määrästä hallituksessa sekä henkilökohtaisista tulevaisuuden näkymistä yritykselle.

Toivottavasti tämä nostaa mielenkiintonne ja saamme hyviä keskusteluja aikaiseksi!

Ystävällisin terveisin

Jonas Möller

Appendix 3, Interview guide, Individual, English

Individual interview, English,

Base information

- Name, Education and current occupation in the company
- How long have you worked for the company?
    - How long have you been on the board of directors?

Work on the board of directors

- Do you have any education for being a member on the board? ADM (Approved board member)
- Do you have any specific background for financial work on the board of directors?
- How much of the boards work is financial?
    - Do you find it challenging?
    - What financial information has the most impact on your work?
    - What financial information is used by the board as foundation for decision making?
    - Do you think that during dividend decisions, an individuals personal self-serving is present?
    - Do you find that you are provided with sufficient information for decision making?

Financial statement process

- Summarize what the company’s board of directors does in the period of making the financial statements
    - What kind of decisions are made? (same yearly decision or special decision?)
    - How and on what grounds does the board make these decisions?
- How do you follow the financial progress during the financial year?
- How do you monitor the subsidiaries?

- Do you find the financial statement process challenging?

Group Financial statements

- Are you aware of group financial statements are how they are made?
- Do you know how it differs from the financial statements of the company?
- What do you think the impact is on the parent company?
- Do you think that the company will be obliged to make group financial statements?

Decision Making

Case practice, Familiarization with the group financial statements for 2018 and 2019 Q1 & Q2. Discussion what is the impact of the new information on the board's decision making and how these affect the personal preference

Do you find that you are presented with too much information? (state of over-information)

Personal preference

- Do you find the group financial statements useful?
- Does it effect your decision making?
- What motivates you most in the financial work of the board?

Appendix 4, Interview guide, Individual, Finnish

Individual Interview, Suomeksi

Alustavaa tietoa

- Henkilötiedot, Koulutus sekä työn kuva
- Kuinka kauan olet ollut töissä yrityksessä?
  - Kuinka kauan olet istunut hallituksessa?

Hallitustyö

- Onko sinulla Hallitus koulutusta, kuten HHJ Tutkinto? (Hyväksytty hallituksen jäsen)
- Minkälainen koulutus/tausta sinulla on talousasioiden hoitamisesta?
- Kuinka iso osa hallituksen työstä on taloudellista?
  - Onko se mielestäsi haasteellista?
  - Mitkä talousluvut ovat sinun työssäsi merkittävämpiä?
  - Mitä taloudellista tietoa hallitus käyttää päätöksenteossaan?
  - Koetko että osinkoaikana ajetaan omaa etua?
  - Koetko että sinulla on tarpeeksi tietoa päätöksentekoon?

Tilinpäätösprosessi

- Kertoisitko hieman mitä yrityksen hallitus tekee tilinpäätös aikoihin?
  - Minkälaisia päätöksiä hallitus tekee? (Vaihteleeko vuosittain, samantyyppisiä?)
  - Miten ja miltä pohjalta hallitus tekee nämä päätökset?
- Miten seuraatte talouden kehitystä tilikauden aikana?
- Miten seuraatte KV toiminta tilikauden aikana
- Koetko että tilinpäätösprosessissa on haasteita?

Konsernitilinpäätös

- Oletko tietoinen konsernitilinpäätöksestä ja sen laatimisesta?
- Tiedätkö miten se eroaa emoyhtiön tilinpäätöksestä?
- Minkälainen vaikutus tytäryhtiöillä on yrityksen tulokseen?
- Luuletko että yritys on tulevaisuudessa olemaan velvollinen laatimaan virallisen konsernitilinpäätöksen?

Päätöksenteko

Case harjoitus, Tutustutaan konsernitilinpäätökseen 2018 vuodelta sekä 2019 Q1 ja Q2 tulokseen. Keskustellaan hallituksen päätöksenteosta ja miten nämä tulokset vaikuttavat henkilökohtaiseen päätöksentekoon

Koetko että laajennetusta tunnuslukulistasta on sinulle haittaa?

Henkilökohtainen preferenssi

- Onko konsernitilinpäätös mielestäsi hyödyllinen?
- Miten koet, että se vaikuttaa päätöksentekoosi?
- Mikä motivoi sinua eniten talouden hoitamisessa?