



Developing Invoice Approval Process: Guidebook for Second Approvers

The Case of Company X

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ABSTRACT

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Accounts payable (A/P) is the business function where invoices are most often processed. An important part of the process is the invoice approval process where the legitimacy and accuracy of each invoice is verified, meaning that the quantity and quality of the received products or services match what was agreed with vendor. Company X had noticed that the approval process of Client Y invoices is not as efficient as it could be. As thesis objective was set to improve the invoice approval process efficiency by increasing second approvers' knowledge about the process, best practices and terminology related to it. The purpose of the thesis was to create a written guidebook for the second approvers of Client Y. The thesis focused on finding answer to research question "What information could second approvers need in order to avoid mistakes and the invoice approval process to be as clear as possible?".

The main research methods used in this thesis were interviewing and document analysis. In total two interviews were conducted during the research process, one with Company X A/P professional and one with Company X accounting expert. Documents that were analysed were invoices and credit notes that had approval, override approval or rejection notes left by any of three approvers. Additionally, participant observations prior and during the research were taken into account.

The interviews and document analysis revealed that the approvers need guidance in giving the right invoicing information, in which situation is the best practice to approve a document and when to reject, which items should be checked every time from invoice and booking before giving approval, how invoices to be split or forward invoiced should be handled, and how often the awaiting documents should be approved. With instructions about these topics in the guidebook, the approval process should become more efficient as the number of unnecessary rejections should decrease and small mistakes in bookings should be noticed and corrected earlier.

Based on the research findings and literature review, a written guidebook for the Client Y second approvers was created. For confidentiality reasons the guidebook has been removed from the appendices of the public report. Further research could be undertaken to investigate the effects that the approval guidebook has on the approval process efficiency in reality.

Keywords: invoice approval process, invoice verification, accounts payable, outsourced financial management

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1 INTRODUCTION

All companies want to improve their business by making sure that the production of goods and services is as efficient and effective as possible (Harmon 2014, xxvii). Keeping business processes effective and standardized is a challenge especially for growing companies. What has worked a year ago might not be the best practice anymore. In Company X's case many new clientships have been established in short period of time. It has been noticed in the Accounts Payable (A/P) function, that the increase in number of departments and lack of documented instructions has enabled the invoice approval process to lose some of its effectiveness. Not all approvers process the invoices to be approved in the same way as others or according to the best practices determined by Company X.

This thesis will focus on developing the A/P invoice approval process to restore efficiency and form standards. The common problems faced by businesses in A/P and in invoice approval processes will be studied in addition to investigating topics in need for explanation and instructions. The purpose of this thesis is to create a guidebook for Client Y's employees, referred to as the second approvers, based on the information gathered from literature review and research data.

For confidentiality reasons the commissioner of this thesis will not be named and therefore will be addressed as Company X. Their client company, whose employees will be the end-users of the approvers' guidebook, will be called Client Y.

2 THESIS PLAN

This chapter explains the topic, objective, and purpose of this thesis in a more detailed manner. Thesis plan also includes short description of the chosen accounts payable and invoice approval process related concepts and theories, which will be presented in a broader manner later in this thesis. It is also explained what needs to be taken into consideration when writing the guidebook and its benefits in minimizing the challenges related to the approval process. Second to last subchapter provides reasoning on chosen working and data collection methods. The thesis plan ends to a summary of forthcoming chapters.

2.1 Thesis topic

This thesis studies the challenges in A/P function. More specifically under inspection are those A/P challenges that affect the invoice approval process. In addition to investigating common challenges that affect the invoice approval process, the aim is to study in which areas the approvers need guidance. In other words, during the research it is examined where the approvers indicate they do not know what to do or are handling the invoices against Company X's expected practices.

Company X already has a user guide targeted to the client regarding the accounting software in use. Therefore, this thesis does not study if there are challenges related to the technical aspect of invoice approval process and thereby the final guidebook will not include instructions on how to use the accounting software. The practical instructions given in the guidebook will be based to Company X's best practices and therefore will not be studied in this thesis.

The idea of writing a thesis about this topic came from the A/P team who provides financial services to Client Y. While processing invoices, it was noticed that the second approvers occasionally rejected invoices without proper reason. It then took time to investigate whether the reason for rejection was valid and often when it was not, the A/P team needed to explain how similar cases should be handled in the future. The same issue occurred with multiple approvers. Another problem

was that at times at the end of the month during closing it was noticed that invoices with incorrect information had went through the approval process. Those needed to be corrected and thus caused additional unnecessary work. Due to these situations, it was discovered that there is a need for guidelines regarding the invoice approval process and writing a thesis would be a suitable method to fulfil the need.

Even though the tasks that A/P performs might seem small and insignificant, that is not the case. Lack of accuracy and efficiency in the invoice approval process might cause problems that reach further than one might expect. Chapter three further explain what issues can arise from improper A/P and invoice approval practices. To mention one example, if an invoice needs to be partly credited but the approver is not sure whose responsibility is to contact vendor, it might result in paying the correct amount late with added interest expenses and harming the relationship with the vendor.

Having an invoice workflow that proceeds steadily is important also for another reason. If and when processing invoices becomes automated, the importance of the client checking the invoice before approving will increase. In the early stages of automating the process the robot will make mistakes in bookings and if the approvers are not careful enough, there is a significant chance for problems. In addition, the robot would not process the invoices correctly if the approvers have not ordered products or services with correct invoicing information.

2.2 Objective and purpose

The objective of this thesis is to improve the invoice approval process by increasing second approvers' knowledge about the process and terminology related to it. Setting clear instructions how to act in problematic situations aims to make the process more efficient by decreasing the time the approvers use to think what to do to an invoice or credit note. Clear set of instructions also aim to prevent the approvers to process the invoices in an unwanted manner. The purpose of this thesis is to design a written guidebook for the second approvers based on literature review and research results.

The guidebook could possibly be utilized in many situations. For example, when new second approvers join Client Y or there is a temporary change because of vacations or sick leaves for instance, the guide could be used to help in the onboarding process of the new or substitute employee. In addition, the existing second approvers could use the guidebook as an everyday quick reminder about the best invoice approval practices, which would help standardizing the invoice approval process of existing units. When new subsidiaries or departments are established or join Client Y and become client of Company X, the guidebook could be utilized to help the unit managers to adopt the optimal process more easily.

It is in the best interest of both Company X and the client that the process is as clear and straightforward as possible, both are familiar with the terminology used and what is expected from each party. The benefits that could be achieved with the guidebook include for example being able to pay more invoices on time as less time should go into handling invoices in a wrong way or hesitating what to do, reduction of both Company X and Client Y's workload as the need to instruct the approvers individually and process invoices again differently should decrease, and improved relationship between Company X and Client Y as communication and expectations should become clearer.

To achieve the objective of this thesis, the common A/P and invoice approval process related challenges will be studied. Furthermore, it will be investigated in what kind of situations the approvers handle invoices in an unwanted way or are not certain what they should do, meaning where they would benefit from guidance. Thus, the following research question could be formed:

“What information could second approvers need in order to avoid mistakes and the invoice approval process to be as clear as possible?”

Based on the research question the following sub-question can be formed:

“What are common problems in accounts payable and in the invoice approval process that should be avoided?”

2.3 Concepts and theory

2.3.1 A/P and the approval process

The theoretical framework (chapter three) will present literatures' view on the key aspects of accounts payable and the approval process. It will form a base for the research and creation of the guidebook, starting from the broadest and most general concept ending to the most case specific concept as seen in figure 1.

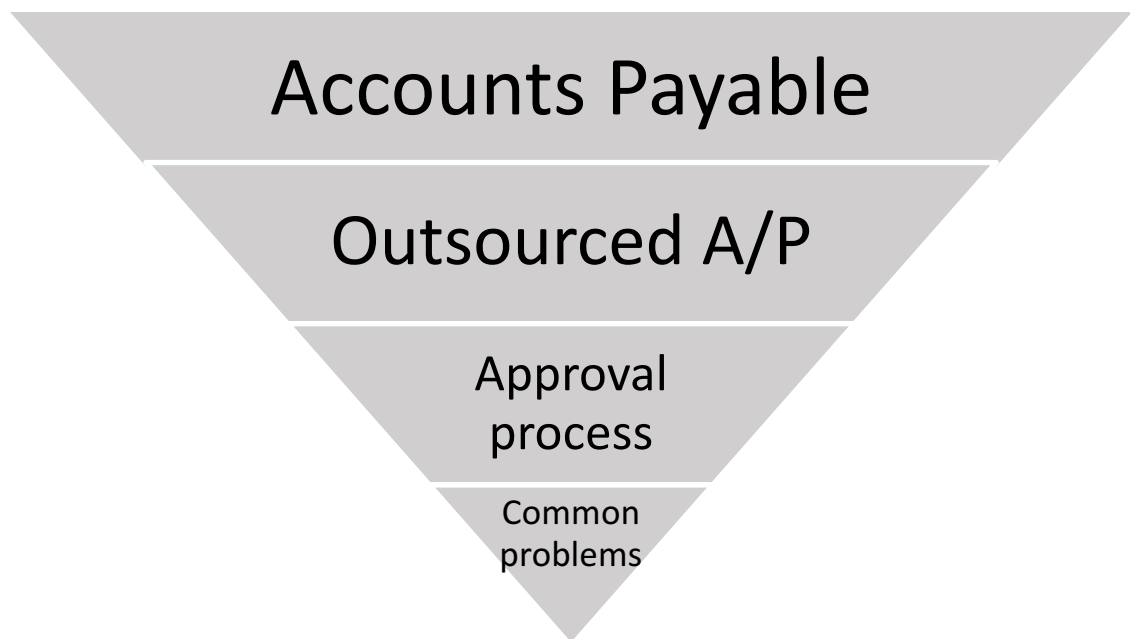


FIGURE 1. Theoretical framework concepts

The topic that will start the theoretical framework is *A/P* in general. Knowing the definition of *A/P*, what kind of tasks are handled in that function, how can they be organized, what are the goals of the business function and what kind of consequences poor *A/P* management might result in. Basic knowledge about *A/P* will help to better understand the topic and the field in which the research will be conducted. It will also be presented how the development of technology has affected *A/P* and its key processes.

A/P in general will be followed by definition and description of outsourced *A/P*. Because this thesis focuses on the invoice approval process of a company that

has outsourced its A/P function, it is necessary to understand the concept of outsourced financial management. Based on literature review the subchapter will study what outsourced A/P is and what are the reasons behind the outsourcing decision. Also factors that affect the success of the outsourcing relationship are described.

Outsourced financial management is followed by a chapter that describes and defines one key part of invoice processing: The approval process. The approval process subchapter will present what is the purpose of including gathering approvals to the invoice processing. There are different kinds of verification methods that can be used, and those methods will also be presented. The concept of internal controls is also introduced as it needs to be taken into consideration when planning for example approval roles.

The chapter ends to description of common problems that businesses might face in their operations regarding both A/P function and the invoice approval process based on literature review. Studying what those problems are is essential for the research and for creating the guidebook, as it is necessary to know which problems potentially decrease the efficiency of A/P and therefore should be avoided. Without the knowledge it would be difficult to create a guidebook with adequate information and instructions.

2.3.2 Written guidebook for approvers

An operations manual is “a document that describes in detail the processes and systems that a company uses to produce its goods and provide its services” (Cambridge Dictionary n.d.). In this case the operations manual, meaning the guidebook, will describe the invoice approval process of Company X.

A written document in electronic form was selected as an execution method for the guidebook based on the benefits it has. As Bragg (2007, 103–104) states, a written manual in electronic form is fast and easy to access as it provides the possibility be stored in computer or as a printed copy in the office space. In addition, it can easily, and more cost effectively be updated compared to for example

video instructions. Electronic manuals can also be efficiently distributed to users in different locations (Bragg 2007, 104), in this case meaning the invoice approvers in different cities. According to Goodman (2013, 8) most people that have learned a foreign language have better capabilities to read and understand the learned foreign language compared to reading and understanding it, which also supports selecting a written form of instructions for the invoice approvers whose native language is not English.

According to Tripathi (2010) there are five different styles that a manual could be written in: Descriptive, playscript, concise, simple and easily understandable, and informal style of writing. Descriptive style is writing in very detailed manner and is used for example in manuals of products. Playscript style shows procedures step by step in brief form. Concise style also aims to cover briefly essential and relevant points for example as lists, but not in step-by-step style. Tripathi states, that simple and easily understandable style should be used in any types of manual. (Tripathi 2010, 26–29.) Writing in informal style is precluded, since the target group of the guidebook is Company X's client, meaning that a formal style of writing is required in communication. All the other styles could possibly be used in the guidebook for second approvers. Institute for the Languages of Finland (n.d.) advices in their tips for writers of instructional texts to use imperative verb forms in order to clearly communicate what should be done. When the guidance given serves the benefit of the reader, using imperative word form does not make the tone of the text impolite.

The aim is to create a guidebook that is easy to implement while working. Organizing the topics in logical order contributes to the readability of the guidebook, meaning that it makes it seem less heavy to read. If a guidebook is written on the spot without proper planning, it might result in the guide looking poorly formatted and inconsistent, which could lead the reader to not use the guidebook (Bragg 2007, 13). Also, Institute for the Languages of Finland (n.d.) underlines the importance of the instructions being easy to understand. According to the institute's advices for writers of instructional texts, it might be beneficial to use pictures and graphs as another tool to help to deliver the message.

Since the end-users of the guidebook are not Finnish, it is necessary to take into consideration the different needs that non-native English speakers and international audience might have regarding the guidebook. The most important thing is to use simple language. According to Weiss (2005, xii) a set of tactics that help to avoid misunderstandings is to use short words, short sentences, elementary verb forms and avoid using idioms. In addition to carefully selecting how complex language is used, Lipus (2006, 83–86) also underlines aspects mentioned before, including the importance of logical structuring of the text, readability as well as using graphics in creating instructions for international audiences.

2.4 Methodology

The research was chosen to be executed by using qualitative research methods as the data wanted to gather is non-quantitative in character. Qualitative methodology is defined as research methods that produces descriptive data, “people’s own written or spoken words and observable behaviour” according to Taylor, Bogdan & DeVault (2015, 17). Based on the patterns that the collected data forms qualitative researchers develop concepts, information and understanding (Taylor et al. 2015, 18).

First research method is interviews. Interviews mean the encounters of interviewers and interviewees, where the aim is for the interviewer to understand the perspective of the interviewees’ experiences that are expressed in their own words (Taylor et al. 2015, 102). In this case the interviewees are two of Company X’s employees who work in the team that is responsible of Client Y’s financial management. The interviews are semi-structured, meaning that a set of questions may be prepared in advance, but the interview is not limited only to those topics. Semi-structured interviews are flexible as they provide the opportunity to modify the questions in the moment, change the order of the topics and they allow also the interviewee to raise new topics to the discussion (Elliot, Fairweather, Olsen & Pampaka 2016).

Second chosen research method is document analysis. Document analysis is defined as extracting relevant information from texts that relate to the topic and

analysing them (Elliot et al. 2016). In this case the documents that are analysed are invoices and credit notes in the accounting software to which someone or multiple people from the three approvers have left an approval override, approval or rejection note. The relevant information extracted from the documents will be the content of the approval, override approval and rejection notes. This research method was chosen to get the second approvers point of view also represented in the research as it was not possible to interview them. In addition, Company X's annual reports and other internal will be studied in order to be able to introduce the commissioner.

Prior and during the research the author had access to Client Y's A/P records. Therefore, the author could gather information through observing the approval process in advance and identify issues in approval process based on those observations. In other words, participant observations from time before and during the research process were also taken into account in the research.

With the chosen research methods there are risks that should be taken into consideration. One risk in conducting interviews is that the interviewee might not be prepared for the interview, which could lead to the answers of the interviewee to be short and not descriptive enough. On the other hand, the validity of the interview could also be affected by the interviewer. The interviewer's reactions, comments or unconscious bias might affect the answers of the interviewee. A risk that lies in document analysis is that the documents are not created for research purposes, meaning that those might not provide enough details for creating definite conclusions (Bowen 2009, 31–32).

The data collected from the interviews and selected from the documents are finally transformed into information by identifying themes and patterns from the research data. In this thesis the research data should form patterns from which can be concluded what are the problems in the approval process and in which areas the approvers are not confident and could benefit from guidance.

2.5 Thesis process

Chapter number three explains the topics mentioned in concepts and theories in more detail. Chapter four introduces the thesis commissioner Company X and its Client Y whose employees will be the end users of the approvers' guidebook. Chapter five describes the data collection process and its background. Chapter number six focuses on analysing data collected from interviews whereas chapter seven focuses on analysing data collected from approval, override approval and rejection notes. Chapter eight summarizes the research results and presents the content of the approvers' guidebook in general. The approvers' handbook is attached in its entirety as appendix to this thesis. Finally, chapter nine presents the final conclusions of this thesis.

3 THEORETICAL FRAMEWORK

3.1 Accounts payable

Law (2016) defines accounts payable as the amount of current liabilities on company balance sheet that a business owes to a vendor. Accounts payable can also be called as trade creditors or trade payables (Law 2016) and be abbreviated as AP or A/P. In addition, the term accounts payable can refer to a department in a company that processes the payables to the suppliers (Bragg 2019). In this thesis the focus is on the latter definition, the business function. The aim of A/P is to process and prepare payment of only those invoices that have been declared legitimate and accurate, meaning that the purchased and received products or services match the agreed terms (Averkamp n.d.).

Depending on the size of the company and the volume of invoices and credit notes, A/P tasks might be performed by accountants in the accounting function or it can be a separate department in a company (Averkamp n.d.). Every company organizes their functions as they see the best. There is not a strict division in which tasks belong to A/P and which could be performed in other departments. Therefore, the tasks that A/P perform can vary. The function can perform all or only selected of the following example tasks identified by Schaeffer (2007) presented on figure 2.

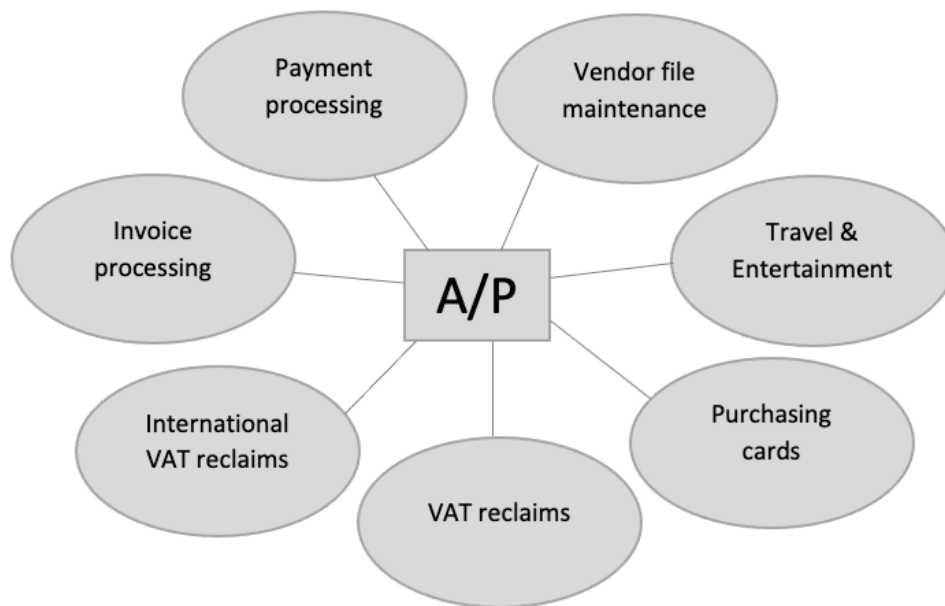


FIGURE 2. Accounts Payable tasks

Some of the tasks are more often performed in A/P function than others. Therefore Schaeffer (2007) has divided the tasks into two categories, core and speciality tasks. As core tasks Schaeffer (2007) names processing invoices into valid bookings, processing payments to vendors and keeping the master vendor file up to date. A/P speciality tasks include handling expenses incurred during travel or while entertaining a business-related client (Business Dictionary n.d.), handling purchase cards procurements that have not been made through regular purchase process and reclaiming international or national value added tax (VAT). (Schaeffer 2007.)

Originally A/P was fully paper based. For example, invoices were received through traditional mail, then the paper invoice was mailed or hand-delivered to a person to approve or matched with a paper purchase order and receiving document, and finally archived. Some small businesses with low invoice volumes might still use paper-based system (Bragg 2009, 9). Nowadays more and more companies are leaving paper-based financial management behind and adapting electronic invoice processing. It helps departments to better meet the requirements of visibility, accuracy and delivering on time (Furth 2005). In addition, electronic invoice processing saves the environment as there's no need to archive paper documents when document imaging system is used (Lamon 2009), re-

ceipt-to-payment time decreases (Lamon 2009) and invoices can be tracked during the approval process and thus are not as easily lost (Bragg 2013, 37–38). In most advanced cases invoices are processed fully through automation and human input is needed only in random inspections. However, it is not possible for most companies as it requires heavy investments.

Company X has utilized electronic invoice processing since the beginning of the partnership with Client Y. Invoices are sent to a scanning email that converts the documents into xml-format, which the accounting software is able to read. Based on the xml-code the software automatically fills all the basic invoice information such as dates, vendor, reference number, amount and to which subsidiary the document is addressed to into a booking template. Also, the invoice image is automatically attached to the booking. The software is also able to filter out duplicates of the documents that have already been booked. Robotic process automation (RPA), meaning for example booking simple routine invoices fully automatically, is utilized with some Company X clients, but with Client Y it is still under development.

When the importance of A/P function is ignored, a company might face challenges that affect the financial success of the company. Lack of appropriate A/P practices could lead to non-refundable double payments, losing opportunities for discounts, fraud by employee or vendor, and accumulating unnecessary remainder and late fees (Schaeffer 2007). As A/P also has an effect on the company financial statements, poor A/P management could lead to giving inaccurate information through financial statements to investors and potential lenders (Schaeffer 2002, 9). In other words, the better A/P is handled, the better information the financial statements give about company performance. Another possible unwanted outcome of poor A/P management is poor vendor relations (Schaeffer 2007, 2009). If payments are constantly being made late, vendor might interrupt the flow of supplies and services which can then cause interruptions in the flow of business of the purchasing company. All of these are serious issues and should be avoided. Therefore, it is important to keep A/P function as efficient as possible.

3.2 Outsourced A/P

Outsourcing is defined as work arrangement, where an outside contractor is hired to perform tasks that could be performed by company's own personnel (Encyclopædia Britannica 2008). Outsourcing may take place in an international context, where the external outsourcing provider operates in another country or in national context, where the provider operates in the same country as the client (Schniederjans, Schniederjans & Schniederjans 2005, 5). Client Y has outsourced its A/P function, which means that Company X is responsible of performing the tasks that fall into A/P on behalf of Client Y. Since Company X operates in different country than Client Y, the outsourcing happens in an international context.

According to McIvor (2010, 7), outsourcing can be divided to service outsourcing and manufacturing outsourcing. Service outsourcing can be further divided into task-oriented and business-process-oriented form. When outsourcing is task-oriented service provider performs individual tasks on behalf of the client. Business-process-oriented outsourcing is also called as business process outsourcing (BPO). It means that a service provider performs only selected activities (selective outsourcing) or all activities (total outsourcing) associated with the process in question or the outsourcing can be utilized on temporary basis (transitional outsourcing) (McIvor 2010, 10). Client Y has selected to outsource its A/P process selectively as for example making payments to vendors is still handled by Client Y.

There are several reasons why a company may take the strategic decision to outsource its A/P function. According to Halvey & Melby (2007, 9), if businesses have processes that are inefficient, non-core and difficult to manage can be a reason for BPO. Outsourcing non-core functions allows business to focus its labor and other resources where they excel and let another company that is specialized in for example financial management to take care of A/P responsibilities (McIvor 2010, 28). In other words, the client company does not need to hire their own A/P professionals and organize trainings to keep their knowledge up to date.

Outsourcing might also increase efficiency if for example the client company has multiple A/P departments in different location. Through outsourcing and re-organization, A/P could be handled in one place. As mentioned before, automating processes require heavy investments. Outsourcing might provide an opportunity to avoid the major investment as the service provider could have better technology and software solutions, more resources for automation or in best case automated processes already in use (Halvey & Melby 2007, 9).

The success of the BPO relationship can be affected by many factors. According to Duening & Click (2005, 163), one success factor is clearly defining not only the service provider's responsibilities but also the client's responsibilities. In client Y's case, for instance, invoice authorization is fully Client Y employees' responsibility. As Company X is not part of Client Y's purchase process and does not have access to documents needed to perform three-way match, Company X employees do not know what the client has purchased and therefore cannot approve invoices. Another important factor of success is sharing information useful to each other (Duening & Click 2005, 165). For example, Client Y is expected to inform A/P if they have done manual payments so that A/P can prevent the invoice from becoming paid again. Vice versa Company X is expected to inform Client Y if there are any delays in month closing schedule. Regular meetings with both parties attending are organized to enhance sharing information.

3.3 Approval process

In the approval process it is checked from the invoice that it fulfills all the information requirements based on law and that the content of the invoice is accurate. The purpose of approval process in other words is to prevent a company losing money by paying inaccurate or fraudulent invoices. For example, some businesses have their invoicing information available in their website, which means that anyone can send invoices to that address. During the verification and approval process it is noticed if someone has sent a fake invoice to the company. Even though the invoice would be declared as legitimate, the content of the invoice might differ from what was agreed. The approval process ensures that also

that kind of invoices are caught, and only the amount for agreed and received goods or services will be paid.

One way to verify invoices is to do a three-way match. In the center of three-way match there are three documents: Invoice, purchase order (PO) and receiving document. By matching all three documents can be confirmed that the quantity and quality and amount of what was invoiced by vendor matches what was ordered and what was received in delivery. When all three documents match with each other, the invoice can be declared as legitimate and be paid. (Schaeffer 2007, 9.) Sometimes, however, a manager's signature of approval is also needed before the payment can be done (Bragg 2013, 25).

When purchase orders are not in use, invoices can be verified and declared ready to be paid solely by acquiring approval from one or more approval authorized employees or managers (Bragg 2013, 25). Gathering an approval from multiple authorized employees is a good verification method for example when a business is lacking control over authorization of purchases and payments (Bragg 2013, 26). In other words, getting approvals from authorized employees decreases the risk of fraud as the document is inspected by at least two different persons. In this thesis the focus is on this employee-based approval method as it is the one utilized in verifying Client Y's invoices and credit notes.

Another alternative for three-way match is assumed receipt, also called as negative assurance. With this method A/P assumes that all goods or services mentioned on the invoice have been received according to the invoice. A/P sends a copy of the invoice to a relevant person and then it is the individual's responsibility to notify A/P if the invoice should not be paid. Otherwise, payment is made on the due date. Because with this method the risk of fraud increases as there is no in-depth verification, companies might restrict the usage of the method to invoices under certain amount and use other approval and verification methods with high value invoices. (Schaeffer 2004, 23–24.)

Approval process can be manual, or it can be partly or fully automated process. In manual approval process three-way match is manually done by an employee

(Bragg 2013, 35) or manually sent to an employee for approval or negative assurance. In automated approval process, on the other hand, purchase order, invoice and receiving are entered in computer system and then the matching can be performed automatically (Bragg 2013, 35). Alternatively, invoices can be sent for authorized employee for approval also automatically. In Company X's case invoices are automatically sent to the right people for approval according to a predetermined approval matrix.

With Client Y it has been agreed, that when Company X A/P department has checked that the invoices and credit notes fulfil the invoicing requirements, the expense has been booked to correct department and expense account, it will be sent to the department manager for second approval and supervisor of the department manager for third approval as presented on figure 3. Therefore, the A/P invoice approval process from Company X's perspective is not based on three-way match. Most probably, however, the second approvers unofficially perform a three-way match to verify the validity and accuracy of the invoice. After the approver has declared the invoice or credit note to be accurate, they approve it. Same applies to third approval. The approvers have the possibility to reject the document and send it back to first approval to be corrected. After the document has received three approvals it can be matched with a counter document or payment.

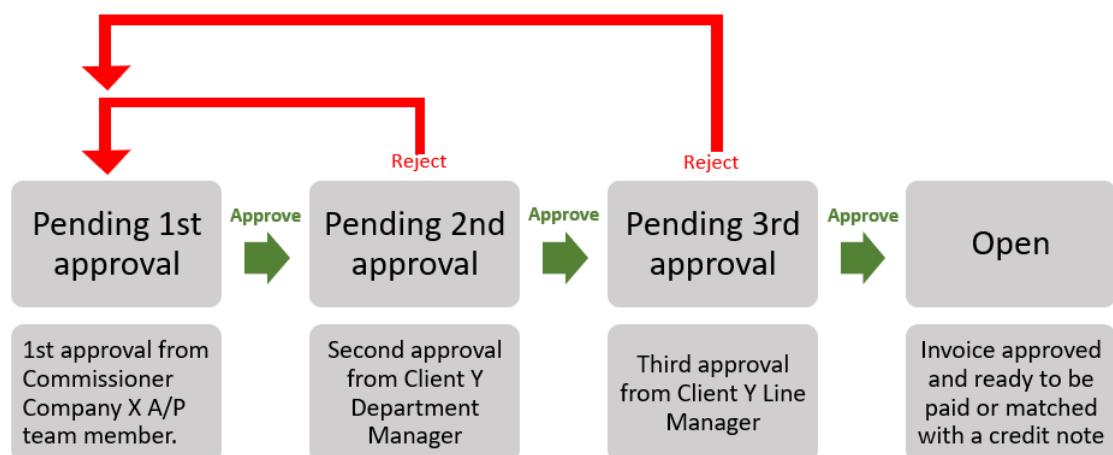


FIGURE 3. The invoice approval flow of Client Y invoices

An integral part of avoiding fraud in A/P is setting internal controls (Schaeffer 2007, 5). Not everyone can give an approval to invoice. The approvers should be carefully selected, so that segregation of duties is fulfilled. For example, the person who approves invoices for payment should not be the person who makes payments (Schaeffer 2007, 187).

In Client Y's case the second approvers are the unit managers, and third approvers are their supervisors, the line managers. One person may not be a second and a third approver of the same unit. If requested by the client, sometimes there can be an exception made to the predetermined approval matrix and invoices can get second and third approval from the Finance Partner and Chief Financial Officer (CFO) of Client Y. Most often this is the case with contractual invoices of significant amounts such as for example rent, audit, insurance, or renovation related invoices.

3.4 Common A/P and approval process problems

In this sub-chapter the focus is on common A/P and approval process problems that could occur in outsourced A/P environment where employee-based approval process is in use. Also, the focus is on problems that occur when an electronic invoice processing system is used, meaning that problems that are common in paper-based process are not included.

As mentioned earlier, Company X is well advanced in electronic financial management and it receives all invoices, credit notes and other documents regarding Client Y in an electric form. Despite the fact that invoices and credit notes come to the accounting system mostly automatically, sometimes those documents need to be added to the system manually. For example, if new invoices are received regarding an accounting period that is soon to be closed, there might not be time to wait for the document to be converted to xml format and be sent to the accounting system. In that case it is better to book the document manually. Adding documents manually to the accounting system is not ideal, since when invoices are booked without the help of pre-filled template the likelihood of making human errors in data entry increases. Tucker (2020) lists human error as one of

five A/P problems that can hurt a business, as the error may cause over- or underpayments and also other problems. The possibility of human error increases the importance of the approver carefully inspecting both the invoice and the booking.

According to Peiponen (2008, 57–58) wrong invoicing address on invoices affects the efficiency of A/P. It might be that the person responsible of the ordering places an order and provides the vendor with insufficient invoicing information. For example, the order could be made to right subsidiary but mentioning the department could be forgotten, which is problematic with companies that have multiple departments. When the invoice is received, it is then possibly routed to wrong department and wrong approver, who then investigates the legitimacy of the invoice and notices it does not belong to them. The invoice is sent back to A/P who investigate what is the right destination of the invoice and sends it for approval again. If this process happens to take place during closing period, there is a change that there is not enough time to get the invoice to the books of the company it truly belongs in time. These investigations take time and therefore there is also a risk that the due date passes and causes additional costs. To prevent all that from happening, in the guidebook should be addressed what is the exact invoice information format that should be given to the vendor.

Another problem that is related to invoicing information is that sometimes invoices are not sent where they are supposed to be sent. In the best scenario invoices are sent directly to A/P (Bragg 2013, 33). As mentioned by Bragg (2013, 33), however, vendors might send invoices to the person who made the order instead of A/P. If the person does not forward the invoice to A/P, A/P function will not be aware that such invoice exists. A/P then likely receives a reminder from the vendor after due date with possible additional reminder and interest costs and at same time notices that the original invoice was never received. This problem again highlights the importance of giving correct invoicing information to the vendor in the ordering phase and why approvers as the ordering persons should be reminded about that in the guidebook. However, it might be that all required information is given in the ordering phase, but the vendor could still mistakenly send the invoice to wrong place. Therefore, it is important that Client Y personnel

are informed on the guidebook what they should do if they happen to receive invoices to their personal emails or to the location of the unit.

When the arrival of invoices to A/P is delayed from one reason or other, the whole process gets delayed. It might be that the due date of the invoice already passes before the booking and approval process is finished. In case an invoice is not approved on due date or soon after, the only option to avoid additional costs and other consequences is to make a manual payment. Manual payments skip the preplanned payables process (Bragg 2013, 53) and should therefore be used with caution or preferably not used at all. According to Bragg (2013, 53), as manual payments are used in unplanned rush situations, marking them, or informing the service provider about them could be easily forgotten, which then causes issues in bank and A/P reconciliation. Again, by highlighting the importance of giving the right invoicing information to the vendor, and by giving instructions what to do in different situations to speed up the approval process, the risk of needing to resort to manual payment could be decreased.

Vanguard Systems (2018) lists eight common A/P issues, one of them being inconsistent processing. When there are many people who handle invoices, there is a risk that not everyone handles the invoices in the same way. There might be employees that are not aware of the right processing methods or it might be unclear from who to seek advice from in unclear cases (Vanguard Systems 2018). Fixing incorrectly handled invoices and educating people individually about the right process causes additional work and lengthens the process. Inconsistent processing is one of the reasons why the process of writing this thesis and creating a guidebook for the approvers was started with Company X. Thus, there should be instructions about the right way to process invoices in the guidebook.

A situation where a risk of inconsistent processing lies is with dispute invoices. Dispute invoices are invoices that have discrepancies, meaning that the invoice does not match either what was ordered or what was delivered, or both (Schaeffer 2007, 29). According to Schaeffer (2007, 30) disputes should be solved with the vendor as quickly as possible to avoid vendor wondering why payment is not received. If the difference is significant, the company may not want to pay the

invoice. In Client Y's case dispute invoices are not paid and instead a credit invoice and, in some cases, new invoice is requested from the vendor. However, both the old invoice and the credit invoice are booked in the accounting system and matched so that no payment will be made, but in order to do that both documents need to be approved. In the guidebook the approvers should be informed what actions they should take with dispute invoices and how those are handled correctly.

According to Peiponen (2008), communication is another aspect that could affect the effectiveness of A/P. Peiponen (2008, 71) mentions that people who work in different departments such as purchasing or A/P, might have difficulties in understanding each other as their expertise is on different areas. McIvor (2010, 114) also sees communication as one potential problem in international outsourcing relationship, as geographic distance between the parties could lead to misunderstandings. Another communication related issue mentioned by Peiponen (2008, 55) is that the people who handle the invoices of international company during invoice workflow, meaning for example A/P professionals and approvers, might use different languages in their communication. This could also be an issue between a client and an international outsourcing service provider. Therefore, the guidebook should clarify which language should be used in communication between the parties.

Another problem that slows the speed of invoice workflow is the time that the invoices are waiting for approval. Approving invoices and credit notes is many times not the first priority of the approvers as they also have other responsibilities (Bragg 2013, 26). In this case, the approvers are in charge of managing a restaurant and only after those responsibilities come approving documents. As the time that receiving the approval takes significantly affects the length of the whole workflow timewise, the approvers should be informed in the guidebook that checking documents as often as possible is of great importance. Especially during month closing period the requirement is to check the documents on daily basis.

4 CASE COMPANY

This chapter introduces the commissioner of this thesis, Company X. The chapter will present the background of why Company X was established, what are its main areas of operation and to what kind of clients it provides services to.

4.1 Commissioner Company X

Company X was established in the early years of 21st century. At that time, the founder and current Chief Executive Officer (CEO) saw a new business opportunity as he could not find a company in Finland with similar service description that he had in mind. Since the beginning the company has grown steadily and expanded its operation in Finland and internationally. The aim of Company X is to provide solutions for customers' challenges in growing and internationalizing their operations while remaining transparent and competitive.

Company X provides its client companies with services in financial management. The key services Company X offers are accounting, Human Resources and payroll services. In addition, Company X provides enterprise resource planning (ERP) software implementation, process automation and business intelligence (BI) solutions. All of these services are offered to both local and international companies. The main business concept of Company X is to be a partner to their clients that can handle all their financial or information system related needs regardless of how many subsidiaries the client has, or in how many countries the client company has business operations.

Company X has clients from many different business industries such as consulting, real estate, event management, home health care and digital entertainment. A common factor to these the client companies is that they are either franchising companies or otherwise substantial corporations that run operations in more than one location. Other key customer group for Company X is rapidly and internationally growing customers.

Company X has several offices all around Finland and few offices in other Nordic Countries and Central Europe. The Headquarters of Company X is located in Helsinki. Company X employs in total over 200 people in Finland and abroad.

4.2 Client Y

In this thesis the focus will be on the invoice approval process between Company X and their Client Y. Client Y is a parent company of multiple subsidiaries and it is acquiring new subsidiaries and growing on steady pace. Client Y and its subsidiaries are all based in Denmark. Their operations focus is on restaurant and bar industries. Company X has many responsibilities in the financial management of Client Y and its subsidiaries, one of them being providing accounts payable related services, such as vendor file maintenance and invoice processing. The team who serves Client Y is based in Tampere Finland.

5 DATA COLLECTION

This chapter will discuss the background of data collection and the process of collecting data in more detail. The chapter presents how the data collection was prepared in advance and describes the data collection process.

5.1 Collection of interview data

Before the interviews, a set of questions (Appendix 1) for employees of Company X was formed. All the questions were formed in a manner where answering only yes or no was not possible. The aim of the interviews was to find out which approver practices the employees of company X find problematic in terms of the efficiency of the approval process. In other words, the objective was to investigate what causes unnecessary additional work and slows down the approval process. Also, the aim was to generate responses on how the approvers behave in certain situations. Based on the responses could then be deduced whether it is clear what to do or not and whether it matches the expectations from Company X.

The interviewees were chosen together with the commissioner. By selecting two employees that work in different positions in the team that serves Client Y more likely generates broader view of the issues in the approval process. The A/P team member is likely the best person to be able to name and describe the issues that directly affect A/P function as she deals with the issues on daily basis. The accounting team member, on the other hand, is likely to be able to describe the A/P issues that also affect accounting function. Accountant is the person who makes corrections from clients request at the end of an accounting period which is usually the point where incorrect bookings are noticed. The chosen accounting team member also has the longest history in the team, which increases the credibility of her opinions even more.

The interviews were conducted via Skype and the conversations were recorded with permission given by the interviewees. The interviews with Company X's employees were held in Finnish, since it was the native language of all participants.

Thereby the interviewees could express their selves in the best possible manner. The interview questions were sent to the interviewees approximately one week in advance, which provided the opportunity for the interviewees to do preparations before the interview, for instance search for examples that support their findings and experiences of the issues.

5.2 Collection of data from document notes

Approval, rejection, and override approval notes were studied from period 1.7.2019 - 31.7.2020. In total there was 316 bills or bill credits with rejection notes, 280 with approval notes and 272 with override approval notes.

In the accounting system there already was a search established that showed all bills and bill credits that had approval notes left by any of the three approvers. Two other similar searches were created for data analysis purposes: One search that showed bills and bill credits with rejection notes and one search that showed bills and bill credits with override approval notes. However, it should be noted that the searches did not show invoices from which the approval note, or rejection note had been removed during the approval process. From the accounting system the search results were exported to excel form for the analysing phase.

The searches show the date of the document, accounting period, the note, type of the document meaning bill or bill credit, document number and amount. Relevant information for the research is the note left on the document and date. If the document is opened in the accounting software, from there it can be seen for example who has left the note and if any action were taken after that. That was also utilized in some cases.

Even though the target audience of the guidebook are the second approvers, also the notes left by first and third approvers were included in the study and analysed as they bring additional value to the research. Excluding the notes left by first or third approvers could possibly leave important information out. The errors third approvers do are likely done by second approvers as well, as they are not as educated in financial management as the third approvers. Comments left by first

approvers indicate which instructions or advices have already been given to the approvers and whether they have been effective or not. In addition, from the approval override notes, which are written by only the first approvers working for Company X, can be deducted if any corrections had been made.

6 ANALYSIS OF INTERVIEWS

This chapter will focus on analysing the interviews conducted with Company X's financial management experts, who work in the team that handles the accounting and accounts payable matters of Client Y. The interviewees share for example which issues cause delays in the approval process and what the guidebook should contain in their opinion.

6.1 Interview with A/P team member

The interviewed A/P professional has identified several issues that have negative effects on the approval process. One of the main issues she has noted are unnecessary rejections. As mentioned before, when documents are rejected, they are sent back to first approval and the approval process resets and starts again. Each rejection also triggers investigations as why the rejection was done and what actions can be taken. As these unnecessary rejections happen, the time documents spend in approval process increases, which then increases the risk for additional late fees and reminders.

The interviewee mentions as one common reason for rejection that there is something wrong with the invoice itself. For example, some items that are charged for have not been delivered, the delivered quality is not what was expected, or the invoice does not belong to them at all despite the invoicing address refers to them. According to the interviewee, rejecting invoices on those grounds is wrong. As any personnel from Company X have not been involved in the ordering process and they do not have access to receiving documents, they do not have authority to request credit notes. The wrongful invoices cannot be deleted either, as when the corrective credit note is received both of them need to be booked and matched. Thus, there is nothing that the first approvers can do except send the rejected invoice back to approval.

One issue that the A/P professional mentioned is that sometimes instructions given by Company X are ignored. She mentioned an example, where one approver multiple times rejected invoice that had already been paid, despite instructions left in form of an approval comment to the invoice. The interviewee had to contact the Finance Partner of Client Y and ask her to deliver the message. One root cause for this kind of problem could be that the approver is not aware that Company X often communicates to the approvers by leaving approval comments directly on the documents, even though the comments are visible on the invoice view. It is easier to leave a note directly on the invoice, meaning that all communication can be done inside one system instead of sending a separate email. Another possible explanation could be that the approvers do not understand the role of Company X and therefore, they do not see the comments as valid source of information. Ignoring the instructions could also be a signal that the approver might not understand why the invoice needs to be accepted even though it has been paid. For example, they might associate approving the invoice as sending them to be paid again.

To A/P professional it seems that the approvers are not going through invoices waiting for their approval often enough. Therefore, she suggested, that the guidebook should have a guideline how often the awaiting documents should be checked. She mentions that especially important would be that the approvers would approve as many invoices that belong to a month that is about to be closed as possible before closing. As the documents are not approved on regular basis, many processes are on hold until all approvals are received. For example, A/P needs to wait for the approvals to apply open credit notes to invoices. A/R also needs to wait for the approvals before an invoice can be forward invoiced. In accounting bookings to clearing account increase as payments cannot be immediately applied to invoices if they are not approved. Guiding the approvers to check their awaiting invoices more often would help many departments, not A/P only.

Based on the interview the most important topic that the guidebook should include is instructions how specific cases should be handled by the approvers, and what are the reasons behind each guideline. Such cases could be for example what to do if an invoice is paid, the invoice belongs to another unit, it needs to be forward

invoiced or the content is inaccurate. Giving the approvers reasons behind why certain situations are handled as they are could help the approvers to adopt new approval habits as they would understand the grounds of them.

Another aspect that the guidebook should address according to the A/P professional is making orders with accurate invoicing information. The A/P professional often encounters invoices that have vague invoicing address, meaning that it cannot be declared with full certainty to who the invoice belongs. The invoice may lack unit specifying information or it may have controversial information, such as name of one subsidiary and business identification number of another subsidiary. To help decrease the time spent on investigating who is the right recipient the approvers should be given concrete examples of which invoicing address formats are accepted.

The A/P professional would also like the guidebook to instruct which items should be checked from both invoice and from the booking. She mentioned an example, where the approver had rejected the invoice saying that the invoice should be forward invoiced. However, the invoice was already booked to forward invoicing account. It means, that the approver did not check the booking carefully enough to notice that. In addition, by specifying what needs to be checked before sending the document to the next approver, the approvers could possibly notice human errors made by first approver more often. It would be beneficial to detect the mistakes as soon as possible.

The interviewee also shared her opinion about visual appearance of the guidebook. Two important elements she raised was that the guide should be very simple and as compact as possible. In other words, the guidebook should not fully consist of only text and it should contain only necessary information communicated in a clear and professional way. If the guidebook presents instructions in logical order and includes also visual elements it could raise the likelihood of the second approvers to go through the guide carefully and seek answers to their questions from there. If based on the first look the guidebook seems long and the structure of the guide and sentences are complex, there is a risk that the second approvers interpret the guide to be heavy to read and going through it would not be worth their time.

6.2 Interview with accounting team member

The accounting professional had very similar observations regarding unnecessary rejections and approval process problems compared to A/P professional's views. As one of the main issues the accounting expert also names the number of unnecessary rejections. The approvers clearly are in need of guidance for example how paid invoices should be handled, what to do if there is a credit note on the way, or why invoices that the vendor has addressed to wrong company cannot be deleted but a credit note should be requested according to the accounting expert.

As one of the most common requests for correction both the A/P professional and accounting expert named splitting or forward invoicing part or full expense to another unit or subsidiary. For instance, if the client company purchases marketing services for their franchise, the cost should be equally split between all the units. Occasionally there also are requests for changing the expense account on the booking if the client sees that another account is more suitable than the A/P team has chosen. Some of these requests are sent by the Finance Partner or CFO of Client Y during month closing period. It is not optimal that the requests are received that late in the month.

The issue of for example not noticing an incorrect expense account from the booking could be caused by the approvers not inspecting the booking properly. The accounting expert told an example, where she noticed that an invoice had been rejected with message that the invoice amount should be split, and they are not willing to pay the full amount alone. However, the invoice had already been split, and the approver did not notice that the amount allocated to their unit was not the full invoice amount. To prevent these rejections, the approvers should be reminded about what they need to check on the invoice and on the booking before giving their approval, as mentioned also by the A/P professional. The approvers are not required to remember any account numbers, but they still should check from the booking if the name of the expense account selected is matching the items on the invoice. By the approvers checking accounts and amounts more

carefully some of the unnecessary rejections could be avoided and need for correction could be noticed earlier.

From the approvers the interviewee also wishes for clearer communication. As also mentioned by the A/P professional, the accounting professional has noticed that sometimes the rejection notes are not unambiguous, and it is not clear what kind of correction or actions the first approver or accountant is expected to do. If the rejection reasons or action requests are not well communicated, it again could increase the time spent on investigating and executing corrective measures.

The accounting expert has also noticed that there are many invoices with incorrect or incomplete invoicing information. Therefore, she agrees with the A/P team member that the guidebook should include examples of invoicing address formats. The accounting expert also mentions that there are many invoices that need to be forward invoiced. As a good option to those she sees that the approvers could be instructed to request separate invoices to each company or unit containing their part only. Regularly re-occurring invoices could be forward invoiced from one unit and in that case separate invoices it would not necessarily be needed. On one or few-time invoices it would be better to request the vendor to charge each party separately, because it would save time that goes into Company X requesting split instructions from Client Y. With right invoicing information could also be decreased the number of invoices that arrive late to A/P, meaning that the accountants could avoid booking as many accruals monthly as they are doing now.

Unlike the other interviewee, the accounting professional sees that the second approvers go through invoices on regular basis and there are not many documents that are left waiting. However, she thinks that the guidebook should include a recommendation of how often awaiting documents should be inspected, preferably on daily basis. The sooner an abnormality is noticed on a document and investigation is started, the better. In that way disputes could possibly be solved before the due date passes, which would again help to decrease need to book payments on clearing account as the payment cannot be matched to unapproved invoice.

The two interviewees had different views on what the approvers should do if the approvers would like changes to be done on a booking. In the A/P professional's opinion, the invoice should be rejected and sent back to first approval in such case. The accounting professional, on the other hand, sees that all modification could possibly be done without rejection. In other words, it could be enough that the approvers only leave an approval note regarding the changes they require and approve it forward. As long as the accounting period is open, changes can be done directly to the booking even though they would be in the middle of approval process. However, as monthly closing time is very busy there is a chance that the period will be closed before changes are done. Making correction after accounting period is closed requires more effort, which makes it not optimal. Additionally, there is a risk that the invoice will be paid before the corrections for example with wrong amount. This is a matter that should be discussed in Company X. All in all, as there are different views inside of Company X regarding this matter, it is no wonder that the approvers are unsure what is the best practice.

7 ANALYSIS OF DOCUMENT NOTES

The analysis of approval, rejection and override approval notes begun by exporting the search data from the accounting software to an excel spreadsheet. Every row was then coded by colour based on the reason the note was left. Additionally, the reasons were divided into two categories based on if the note was left by the first approver, meaning the employee from Company X, or second or third approver from Client Y. Since the aim of the research is to recognize in which areas the approvers need guidance, it is not considered how often the problems or incorrect actions occur in the approval process in the specified time period. All issues are analysed, and all the findings are equally important.

7.1 Approval notes

Approval notes are messages left on the booking during the approval process. An approval note can be written by any of the three approvers. Approval note is note required by the system in order to be able to approve a document. The approval notes were divided into five categories presented on figure 4.

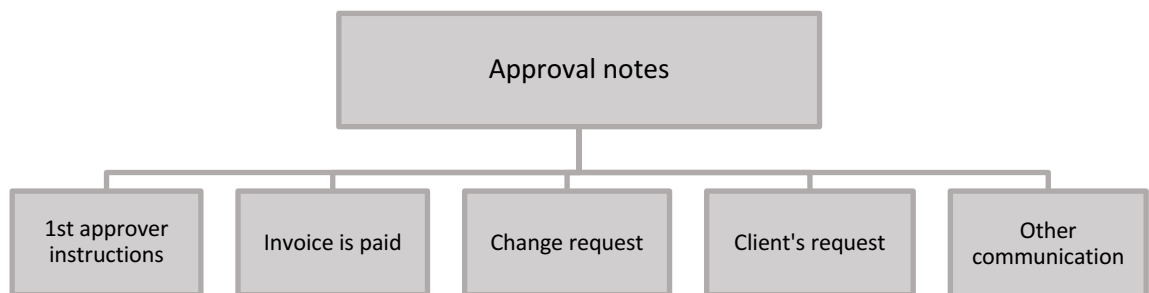


FIGURE 4. Approval note categories

The only problematic practice identified from the approval notes is that the approvers might approve a document despite the fact that they require changes on the booking. For example, in the approval notes were requests to i.e. change department or split the expense. Company X is informed about every new approval comment by email notification to group email, but noticing request there is

not as easy as noticing them from documents waiting first approval. Therefore, it would be better that in case booking information is incorrect, it should be rejected.

Approval notes written by Company X's employees included mostly instructions how to handle certain invoices. For example, based on the approval notes the first approvers had instructed the other approvers not to reject an invoice if a credit note is coming. The same instructions should also be included in the guidebook. That way Company X employees would not need to instruct every approver individually through approval notes. In the first approvers' instructions category was also included messages, where approvers were for example informed that an invoice is sent to approval based on request made by CFO or Financial Partner of Client Y. Another information sometimes given by the first approvers in an approval note was that a credit note has been received. The second approver could then take the credit note into account in evaluating the accuracy and validity of the invoice, which could potentially make the approval process faster.

As mentioned earlier, when approvers want changes to be done on the booking, they should reject the booking. However, in some cases where the approver on the approval note requested to split the expense it was clearly defined which units wanted to be included in the split. Communicating request clearly help the A/P team to perform the corrections faster. What also was done correctly by the approvers was informing A/P that invoice is paid. That is also helpful, as when A/P is aware that an invoice is paid, the team can ensure that the invoice does not become paid again.

Some approval notes were classified as internal communication between second and third approver as they did not include any clear change requests or instructions. For example, there were invoices that had a unit name as an approval note but based on the modification history the invoice had been booked to the right unit from the beginning. For company X it is not optimal that comments are left on bookings that do not require any attention from Company X's employees. From every approval note there is an email notification, which means that unnecessary comments cause unnecessary email traffic, and first approvers need to go through the emails carefully anyway. However, the guidebook should not include a recommendation of not leaving approval comments as they are a good

communication method between second and third approver. That communication should not be disabled. For example, the second approver can let the third approver know that a credit note is coming, meaning that the third approver can approve the document in question quicker as he/she does not need to investigate the same inconsistencies second approver already noticed and talked about with vendor.

In conclusion, based on the approval notes the guidebook should advise the approvers in when they should approve a document and when to reject. For example, the approvers should be instructed to reject invoice if they want any changes to the booking and otherwise approve. They should also be encouraged to continue informing A/P about paid invoices in approval notes but only in cases where the invoice is not paid with Client Y credit card. Additionally, continuing with clearly communicating what the approvers want to be done to the booking should be encouraged in the guidebook.

7.2 Rejection notes

A rejection note is a message left on document before rejection. Rejection notes are left by second and third approvers during the approval notes. A rejection note is required by the system in order to be able to reject a document. From the rejection notes it is possible to identify six categories why the approvers rejected invoices. The categories are presented on figure 5.

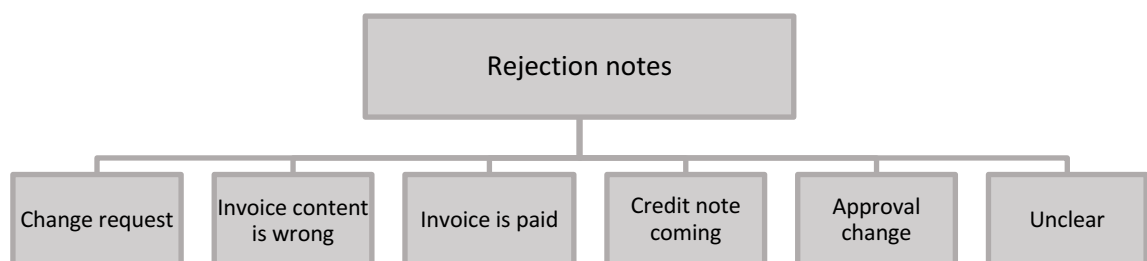


FIGURE 5. Rejection note categories

One of the four problematic rejection categories is invoices rejected based on wrong invoice content. In other words, what is invoiced does not match the received or agreed amount quality or quantity. These rejections are problematic because as already mentioned, Company X is not part of the purchase process and therefore there is nothing Company X can do about them but to send the rejected document back to approval. The approvers should immediately contact the vendor and discuss with them whether a credit note is needed or if the vendor otherwise compensates the deficiency. Rejecting for this reason only unnecessarily lengthens the approval process.

Another problematic reason for rejection is an unclear reason. During the studied period there was over 20 rejections with message "I don't know anything about this" or "I don't think it is for us" or similar. Again, as Company X is not involved in the purchasing process, it is impossible for them to know what services have been ordered by which unit. In these cases, instead of rejection, the approver should have either contacted the vendor or Client Y upper management. In case the document is clearly addressed to a unit that thinks it is not theirs, the approver should contact the vendor and ask for a credit note. If the invoicing address is unspecific, and it is not clearly communicated to which of many units in the same franchise it belongs, it is hard for both A/P and the approver to determine to who the expense truly belongs. In that case contacting vendor and possibly upper management of Client Y would be the best practice. Rejection, again, only lengthens the approval process. In few individual cases the reason for rejection seemed to be to gain more time for investigating the invoice and its background. In those cases, the invoice could have been left waiting and after the investigation is finished the approver could then either reject or approve.

Two additional problematic invoice rejection practices are to reject an invoice on the grounds of there is a credit note coming or invoice has been paid. Rejecting the document is correct action if an invoice has been paid with Client Y credit card. However, during the studied period there was invoices rejected that were paid through bank transfer. In that case the invoice should have been approved because it is needed as receipt for the payment. Similarly invoices that are going to be credited by vendor credit note should be approved instead of rejecting them, because both documents need to be recorded and matched.

Outside of the rejection note reasons there was two things that might cause delays in the approval process: Using Danish language and addressing people with first name or nick name. Firstly, using Danish language when leaving rejection notes is not optimal as Company X employees do not speak Danish. Therefore, the approvers should be reminded that in order for Company X to be able to serve Client Y in their best ability, all communication should happen in English. Secondly, if in the notes there is a person mentioned it would be easier to recognize the person in question if full names would be used. For Company X it might be difficult to know who they should contact or to whom to send a document for approval if the person is only addressed by first or nick name. Confirming the identity of the right person requires additional time, which could be avoided by instructing the approvers.

In addition to unnecessary rejection notes there were documents that were rejected with valid reason. For example, documents were rejected when the booking was accidentally made on wrong unit, or the expense needed to be split or forward invoiced. However, some of the notes did not clearly define which units wanted to be included in the split. Even though the approvers did the rejection for valid reason, they should have communicated their requests in more specified manner. Another correct reason for rejection in the notes was if an approver change was needed. Rejecting documents when a change in the booking is required is the best option, because rejected documents can be easily distinguished from other documents waiting for first approval, meaning that the documents that require corrections can easily be noticed and prioritized.

To conclude, based on the rejection notes the approvers should be instructed to communicate change requests as clearly as possible by using English and by including the whole name of the person if needed. The guidebook should also clarify that it is Client Y and their employees' responsibility to communicate with the vendor about incorrect invoices and in the beginning make the purchase with proper invoicing information. The rejection notes also suggest that approvers should be informed in which case it is the best practice to approve a document, for example if the invoice is paid through bank transfer, or to reject, for instance when a change to the booking is required.

7.3 Override approval notes

Override approval notes are messages that are left on documents by the first approvers who have given all required approvals. In other words, the documents that are override approved do not go through the regular approval process. Override approvals are used when corrections are demanded to bookings that have already been approved and are booked on closed period. For example, if an invoice booking has been made on wrong amount but it has been approved and it is on closed period, the corrective document and new invoice can be override approved. Sending corrections to approved bookings to regular approval process could possibly confuse the approvers as they already have approved similar document.

From the override approval notes can be identified seven main reasons why corrections have been made. The reasons are presented on figure 6.

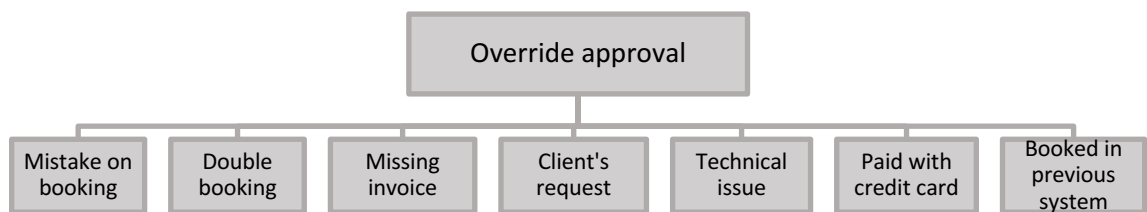


FIGURE 6. Override approval reasons

Corrections that are caused by inconsistencies between a booking and invoice are classified as mistake on booking. Double booking means that two bookings with the same content has been made. As missing invoices are called those invoices that vendor has credited, and the credit note is already booked in the accounting system, but the original invoice is booked at later date. Client's requests most often come from CFO or Finance Partner of Client Y and the requests can for instance be that Company X needs to create credit bookings on invoices that Client Y wants to remove from the accounting system. Technical issue is i.e. a

situation where the approval system is stuck, meaning only Company X is able to approve a booking. Technical issue therefore is an exception as it is the only reason for override approval that is not related to any correction. Invoices that have been paid by Client Y credit card and are booked in accounting system also require correction, as well as documents that have been booked in the previously used accounting system as the expense from credit card purchase or an old purchase is not wanted to show twice in the company books.

From the override approval reasons five likely could not have been avoided. Double bookings should be filtered out automatically by the accounting software. Either the system has been unable to recognize the double booking or the document number is incorrect, for example the system has read O as 0 and the first approver did not notice that either. Noticing missing invoices is also very difficult for the approvers as many invoices and credit notes go through their approval. It is Company X's responsibility to check that the original invoice that is credited is in the accounting system before the credit note can be approved. Similarly, Company X is also responsible for making sure that older invoices have not already been booked to the previously used accounting system. As the access rights of approvers are limited, the only thing they can do if they encounter invoices that are stuck in the approval process due to technical issue is to ask Company X to override their approval. Client's requests, as mentioned, usually concern special cases and come from the upper management of Client Y, meaning that approvers' work does not affect the whether the request is made or not.

Correcting mistakes on bookings or bookings paid with credit card could have been avoided with the approvers being more careful in the approval process. Based on the override approval notes mistakes that have been corrected with override approved documents include that the booking is made on wrong subsidiary, the amount is wrong, or document form is wrong i.e., for example bill is booked as bill credit. Included are also if due date is wrong, reference number is wrong, selected vendor is wrong or the currency on the booking is wrong. The approvers should be aware that all of those items should have been checked from the invoice and from the booking by all three approvers before giving approval. The approvers should also be aware that invoices paid with Client Y credit

card should not be approved in A/P process, as credit card purchases are handled in different system.

In conclusion, based on the override approval notes left by the first approvers, the guidebook should definitely include a list of items that should be checked form each invoice and booking. When the booking and invoice image are carefully compared by the second approvers, the incorrect items could more likely be noticed earlier and could be corrected by Company X employees. That would decrease the number of corrections done after an accounting period is closed. Additionally, the guidebook should inform the approvers that invoices paid in advance with Client Y credit card should not be booked through A/P. Those invoices will come to the accounting system through another system integration, meaning that if the cost is also recorded through A/P it would show twice in bookkeeping. Therefore, the approvers should be instructed to reject those invoices.

8 APPROVERS' GUIDEBOOK

As the guidebook will not be publicly available for confidentiality reasons, this chapter describes the content of the approvers' guidebook in general level. The chapter gives insights what topics were covered in the guidebook. Additionally, it provides reasoning why the specific topics were selected. The guidebook is attached as appendix (Appendix 2).

The guidebook begins with an introductory chapter. In the early drafts of the guidebook there was no introduction, but together with Company X it was decided that an introduction would be beneficial. With the introduction chapter the transition to the actual topic seemed smoother, which could positively affect the readability of the guidebook. The short introduction explains in a nutshell that the aim of the guidebook is to standardize the approval process and help the approvers in their work. In there it is also stated that it is targeted for the approvers, especially for the second approvers of Client Y subsidiaries and departments.

After introducing the guidebook comes chapter about invoice workflow. The chapter is one page long and the workflow is presented in the form of a figure. The left side of the figure illustrates the invoice status beginning from ordering and giving the invoicing information to vendor, to first, second and third approval and ending to Open and Paid in Full status. The right side of the figure explains in writing what happens to the invoice or credit note in each stage of the invoice workflow and by who the approvals are given, or actions are taken. The aim of the figure is to more concretely show to the approvers where they are located in the process, meaning what happens before they get the document for approval and what happened after they have given their approval.

Invoice workflow is followed by chapter regarding invoicing information. As highlighted by Company X A/P professional and accounting expert and Peiponen (2008, 55), giving the right invoicing information during ordering is of high importance. In the rejection note analysis was detected requests to change the unit to the booking, meaning that it is possible that the given invoicing information was not accurate enough for first approver to be able to identify the right recipient. As

the second approvers are responsible for the ordering process and they give the invoicing information to the vendors, they therefore should be reminded about the importance of right invoicing information. In the chapter there is clearly stated what is the email address where all the invoices should be sent. In addition, the chapter also gives concrete examples of the two accepted invoicing information formats. They leave no room for interpretation, which makes it easy for the approvers to check if the information they are giving to vendors is correct. The chapter additionally includes recommendation to communicate forward invoicing request already on the invoice if possible and if requesting separate invoices to each unit is not possible.

After ordering comes the main task of the approvers, which is checking the validity and correctness of invoices. Therefore, the fourth chapter of the guidebook lists and shows all the items that should be checked from a booking and invoice before approving or rejecting it. As found in the research, on monthly basis there are bookings that go through the approval process that need to be corrected afterwards. The aim of the checklist is to generate better accuracy in the approvers when they are validating the invoice and approving the booking. The chapter also informs the approvers that Company X's employees might communicate to the approvers by leaving a message in the approval notes.

The fifth chapter consists of general information and guidelines regarding A/P and the approval process. One of the most important information given in the chapter is that A/P is closed on the fifth working day of each month. Sharing that information aims to encourage approvers to approve invoices preferably on daily basis, so that there would be a minimal number of invoices waiting for approval after A/P has been closed as possible. In addition, the chapter emphasizes that invoices with incorrect content cannot be deleted. Since the rejection note analysis showed that occasionally the approvers also use Danish in their communication, the approvers are informed that due to Company X being an international service provider, the language of communication should be English. The approvers are also reminded that if they mention a person on any notes, they should use the full name of the person.

General information and guidelines are followed by chapter “What to do?”. In the chapter the approvers are given guidance in which situations they need to approve and when to reject the document. The situations where the approvers are guided whether to approve or reject the document are presented on figure 7.

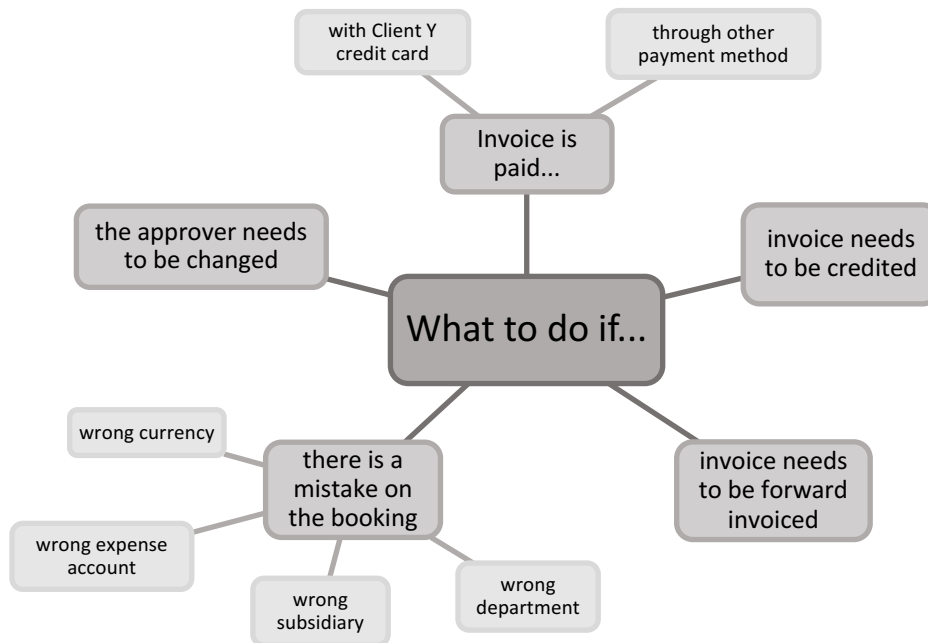


FIGURE 7. Guided approval or rejection situations

As mentioned by Peiponen (2008, 55, 71) communication might be one cause of issues in A/P. Therefore, a chapter that includes common terminology used in A/P and financial management was also included in the guidebook. What also justifies including the terminology chapter in the guidebook is that the approvers are not professionals of financial management and might be unsure of the vocabulary. The terminology chapter aims to explain terms that the approvers might encounter in their daily work, such as forward invoicing and serial number, in a simple easily understandable manner. By learning the commonly used terms, the approvers could better understand the instructions given in the guidebook and be able to communicate better with Company X.

The guidebook ends to Company X contact information and encouragement to not hesitate in contacting them in case of questions. Including Company X contact information in the easily accessible guidebook hopefully inspires the approvers

to seek advice from Company X in approval situations instead of guessing what the best practice is. In other words, including contact information aims at improving information sharing between Company X and Client Y, which is an important outsourcing success factor mentioned by Duening & Click (2005, 165).

9 CONCLUSION

From the analyzed document notes and conducted interviews can be concluded that a need for approvers' guidebook truly exists, and approval process of Client Y invoices is not optimal. The research showed that there are multiple situations where according to the theoretical framework and Company X employees the approvers could do better choices. In order for the approval process to become more efficient and the negative effects of inefficient process, such as manual payments, late fees, and incorrect bookings could be decreased, creating a written guidebook for the Client Y approvers was chosen as purpose of this thesis. The aim of creating a guidebook was achieved. The topics of the guidebook were selected based on interview analysis, document note analysis and theoretical framework. The instructions given in the guidebook were based on Company X already established best practices.

In order to assist finding answers to the main research question, a sub-question "What are common problems in A/P and in the invoice approval process that should be avoided?" was formed. The theoretical framework mainly answers the sub-question. Based on literature, as potential problems in A/P and in the approval process could be identified human error, incomplete invoicing information, inconsistent processing, dispute invoices, communication between not only between departments but also between client and service provider, and approval tasks being a low priority.

The main research question formed in the beginning of the thesis writing process was "What information could second approvers need in order to avoid mistakes and the invoice approval process to be as clear as possible?". In conclusion based on the interviews and document analysis, the second approvers need most guidance in giving the right invoicing information, in which situation is the best practice to approve a document and when to reject, which items should be checked every time from invoice and booking before giving approval, how invoices to be split or forward invoiced should be handled, and how often the awaiting documents should be approved. With instructions given in the guidebook to these topics it should be possible for the approvers to replace their unwanted

approval habits with Company X best practices and to decrease how often common A/P and approval process problems are encountered.

Because of the global Covid-19 pandemic and its effects on Client Y, the approvers could not be interviewed as originally planned. Therefore, the research method needed to be changed from client interview to document note analysis during the writing process. Since it was not possible to interview the second approvers and gather data on their experiences about the approval process, it may affect the reliability and validity of the research results. It might be that in the interviews conducted with two Company X's employees and in the document note analysis not all issues were discovered. There is also no certainty that the guidebook fully fulfils the guidance needs of the approvers.

The guidebook created is tailored to Client Y and to their approvers needs. However, with small changes it could be possible to utilize the guidebook in other clientships as well. The guidebook could be for example used as a template for similar guidebooks to other clients. The headings could possibly be kept the same and only the content of each chapter would need to be tailored according to each client's needs, the software they use and according to the regulations in which country they operate in.

In this thesis it was not studied what kind of changes in efficiency the approvers' guidebook resulted in practice. Further research could study if the guidebook has any effects on the whole process from purchase to payment and approval process efficiency. Additionally, as the research excluded studying the technical skills of the approvers, further study could assess that as well. As invoice approval process from the second approvers' perspective is only one part of the whole invoice workflow there is still a lot that could be investigated. For example, the approval process could also be taken under inspection from first and third approvers' point of view and possibly create individual guidebooks for them. A similar research could be conducted with any other clients as well to see if the client's industry has any effect on approval process efficiency.

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APPENDICES

Appendix 1. Interview questions to Company X's employees

1. What are the reasons why invoices can be rejected?
2. What kind of corrections are most frequently requested by the client?
3. What kind of corrections or re-sending invoices for approval could be avoided by giving the approvers more detailed guidelines?
4. What kind of approval habits the approvers have that you would like to change?
5. In which areas you find the approvers needing guidance based on your experience?
6. Which topics or instructions the guidebook should include in your opinion and why?

Appendix 2. Approvers' Guidebook

1 (11)

