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Business and Culture
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Development of Payroll
Case: Saimaan Matkaverkko Oy / M/S Brahe

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ABSTRACT

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Development of Payroll: Case Saimaan Matkaverkko Oy / M/S Brahe, 39 pages, 2 appendices

Saimaa University of Applied Sciences, Imatra

Business and Culture, Degree Programme in Tourism

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The aim of the thesis was to familiarize with the payroll process of the case company and find out reasons for occurred problems and finally to create a manual that can be used in payroll operations.

The theoretical part deals with payroll on a general level and outlines the legislation related to payroll. The theoretical part outlines also concept of corporate acquisition and how payroll is related to that.

The thesis was carried out by using qualitative research methods, mainly by observing the operations through participation but also using open interviews to gather details. The case study part of the thesis outlines the payroll process in the case company and introduces problems that have occurred.

The thesis process showed that payroll is an important part of company's operations and even minor problems in communication can cause problems that take time and effort to be solved. The result of the process was a manual that can be used by the accountant in payroll management but also as a guide for new employee about the conditions for payroll. The content of the manual was chosen in cooperation with the representative of the case company.

Keywords: Payroll, Corporate Acquisition, Collective Agreement

TIIVISTELMÄ

Antti Peltonen

Palkkahallinnon kehittäminen: Case: Saimaan Matkaverkko Oy / M/S Brahe, 39 sivua, 2 liitettä

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Opinnäytetyön tavoitteena oli tutustua case yrityksen palkkahallintoon ja sen ongelmatilanteisiin ja tämän pohjalta luoda selkeyttävä opaskirja, jota voidaan käyttää palkkahallinnon apuna.

Opinnäytetyön teoria osuus käsittelee yleisesti palkkahallintoa ja siihen liittyvää lainsäädäntöä. Tämän lisäksi teoria osuudessa käsitellään lyhyesti yrityskauppaa sekä sen vaikutuksia palkkahallintoon.

Opinnäytetyötä tehdessä käytettiin kvalitatiivisia tutkimusmenetelmiä. Tutkimusaineisto kerättiin pääasiassa tarkkailemalla toimintoja työn ohessa, mutta myös avoimen haastattelun keinoin. Case tutkimus osuudessa esitellään lyhyesti yrityksen nykyinen palkkahallinnon prosessi sekä kerrotaan palkkahallintoon liittyneistä ongelmista sekä kysymyksistä.

Opinnäytetyön aikana tuli selväksi, että palkkahallinto on tärkeä osa yrityksen toimintaa ja jopa pienet ongelmat palkkahallinnon viestinnässä voivat aiheuttaa aikaa vieviä ongelmia. Opinnäytetyön lopputulos oli palkkahallinnon ohjekirja, jota voidaan käyttää apuna sekä palkanlaskennassa että selvittämään palkanmaksun ehdot uusille työntekijöille. Ohjeistuksen sisältö valittiin yhteistyössä case yrityksen edustajan kanssa.

Avainsanat: Palkanlaskenta, Yrityskauppa, Työehtosopimus

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Laws referred to the thesis and in the manual

Kotimaan matkustaja-alusliikenteen työehtosopimus = Collective bargaining agreement of domestic passenger vessel traffic = KMATES

Merityöaikalaki = Maritime working hours act

Merityösopimuslaki = Maritime labour legislation

Merimiesten vuosilomalaki = Annual leave act of seamen

Ulkomaanliikenteen matkustaja-alussopimus = Passenger vessel agreement for international trade

Työaikalaki = Working Hours Act

Työehtosopimuslaki = Collective Agreement Act

Työsopimuslaki = Contracts of employment act = TSL

1 Introduction

Payroll is often problematic operation as it is common that both the employees and entrepreneurs have very basic information about the exact decrees of the employment legislation and the collective agreements. Especially new entrepreneurs far too often learn the payroll process in the hard way, from the mistakes (Aalto 2003, p. 7.)

However, payroll can cause difficulties also for a more experienced company, if the circumstances change and the operations are not anymore “business as usual”. This kind of change of circumstances can be for example a corporate acquisition, where two or more companies either totally or partly integrate. (Erkkilä 2001, p.15.)

During a corporate acquisition there are several issues and operations that need to be unified and cleared between the two companies and as the process is often rapid, it is possible that some sectors or operations have not been thoroughly planned and thus problems occur at some point after the business operation under the new owner has started.

Even though payroll is difficult, it is one of the most vital processes of a company and thus should be paid attention to and possible problems should be solved. First of all the employees are, especially in the field of tourism, often the most important resource of the company and thus the payroll issues should be considered. Quite often nowadays the concern is on human resource management; thus considering payroll is vital for company’s success as, among other things, wage is important in creating basis for good work motivation. (Kauhanen 2010, p.112.)

In a case where there are misunderstandings and confusion, it is important to develop the process and for example to create a model or a tool that eases the payroll as a process and, hopefully, eliminates the possibility for misunderstandings. From the human resource management point of view, it is important that the company can already in the beginning of the employment show clearly the conditions that determine the amount of wage. This will reduce problems in future as a different interpretation of the contract is easier to avoid.

Furthermore, all the internal operations of a company, including payroll management, are a part of marketing the company, creating an image of the company. It is important that payroll is managed in such way that it does not harm the company image.

Overall, it is important to intervene if problems occur, as they often harm the overall functionality of the company. Even if the problems are not serious, they should be corrected as even small confusions can cause lots of unnecessary work.

1.1 Introduction of the partner and the case

Saimaa Travel Net is a Lappeenranta-based Finnish tour operator and travel agency and it was established in 1996. The founder and managing director of the company is Kirsti Laine. Saimaan Matkaverkko Oy has specialised on Russian travel services and cruises on the Lake Saimaa and Saimaa canal. The company operates two passenger ships, M/S Carelia and M/S Brahe. (Laine 2011.)

Main office of Saimaa Travel Net is located in Lappeenranta but it has also two representative offices in Russia, one in St. Petersburg and one in Moscow. In addition Saimaa Travel Net has two subsidiaries, a shipping company Saimaa Travel Oy and OOO Saimaa Travel Russia. Saimaa Travel Oy is responsible for the cruise operations and operates both ships.

1.1.1 M/S Brahe

M/S Brahe is a passenger ship owned by Saimaan Matkaverkko Oy. It was built in Chicago in 1943 but it has been renovated several times, last time in 2008. At the moment it is the biggest inland water ship in Finland. The ship was formerly owned by Kristina Cruises and was sold to Saimaa Travel Net in 2010.

During the operating season 2011, Saimaan Matkaverkko Oy employed in total approximately 25 people on M/S Brahe. The minimum manning of the ship is five persons, but this is only when there are no passengers aboard. If the ship is on a cruise the minimum manning depends on the number of passengers. If there are fewer than 100 passengers, the number of crew members required is

nine. If there are 100 or more passengers, 11 members of crew are required. During the cruises usually the manning was approximately 15-18 people and the rest of the employees were off-duty. (Laine 2011.)

In year 2011, the ship operated on the Lake Saimaa and on eastern areas of the Gulf of Finland. The route of the ship was Savonlinna-Puumala-Lappeenranta-Kotka-Helsinki.

1.1.2 M/S Carelia

The other ship that Saimaa Travel operates is M/S Carelia, a passenger ship owned by Lappeenrannan Laivat Oy. The ship operates on a route Lappeenranta - Vyborg, through the Saimaa Canal. It was built in Husum, Germany in 1969 and its home port has been Lappeenranta since 1986. (Laine 2011.)

1.1.3 Case: Payroll of M/S Brahe

Saimaan Matkaverkko purchased M/S Kristina Brahe from a Kotka based cruise company Kristina Cruises in 2010. The case can be considered as a corporate acquisition as the transaction did not concern only the ship, but also some employees. To put in other words, Saimaan Matkaverkko did not buy only a machine but a “branch” of another company, thus making a corporate acquisition. The new owner changed the name of the ship to M/S Brahe.

The first operating season of M/S Brahe was summer 2011 and during this season many things were new for both the employer and the employees. One of these new issues was the payroll of the crew of the ship. Even though Saimaan Matkaverkko has operated M/S Carelia for several years and knows the payroll system of that ship, the case is that payroll of M/S Brahe is totally different due to the fact that the collective agreement is not the same. With M/S Carelia the collective agreement that is followed is Ulkomaanliikenteen matkustaja-alussopimus (passenger vessel agreement for international trade), whereas the collective agreement followed on M/S Brahe is Kotimaan matkustaja-alusliikenteen työehtosopimus (Collective bargaining agreement of domestic passenger vessel traffic). This difference is due to the fact that M/S

Carelia operates on international route between Finland and Russia but M/S Brahe operates on Finnish waters. (Laine 2011.)

During the operating season the payroll of M/S Brahe caused problems as different parties had different opinions about what is said in the collective agreement and what was agreed internally between the previous owner, Kristina Cruises, and the employees. Also the accountancy company, which was responsible for calculating the wages of M/S Brahe, was confused with the same issues.

I had my placement in Saimaan Matkaverkko during the operating season 2011, and my work tasks included also payroll issues. Among other things, I was partly responsible for delivering the necessary documents to the accountancy company.

Already before the placement, I had had a personal interest in doing a thesis about a topic that is related to the business administration of a tourism enterprise. So I wanted to have my professional placement in a company that allows me to work with business administration. During this placement, as I took part in the payroll process, my superior, shipping company manager proposed that a project could be made in order to clarify the payroll process and to make sure that each party knows the exact details of the collective agreement.

1.2 The objective of the thesis

The objective of the thesis is to identify current problems in the payroll of the ship employees and find out the reasons for them. After this, a further objective is to develop an easy and practical booklet or manual for clearing out the process.

The main process of the thesis is to collect information about payroll and identify the problems in the case company and finally develop a guide booklet that suits company's requirements. As the thesis is project based, there were three sub-projects that needed to be executed in order to reach the main objective.

Sub projects that were executed:

1. Identify the special features of the industry, payroll and collective agreement of homeland ship employees and form an overall view.
2. Identify the individual problems and confusions in payroll of the case company.
3. Develop a simple guide booklet for payroll that satisfies the needs and expectations of all parties and is in full compliance with the law and collective agreement.

The first part of the thesis familiarizes with the conceptual framework of the case, by forming an overall view over the employment and especially payroll legislation and the collective agreements. In addition to this it is necessary to familiarise also with the overall cruise industry in order to create more comprehensive view over the issue. Also, due to the fact that the case company, Saimaan Matkaverkko, had quite recently purchased M/S Brahe, which can be considered as a corporate acquisition, and which seems to have affected the payroll problems, it is essential to provide theoretical framework about corporate integration as well.

The second part of the thesis familiarises with the case company and its operations and current situation. The familiarization was carried out by interviewing the shipping company manager Jussi Laine and by observing the processes during placement. The interview was carried out in several meetings, and the interview was not limited by defined questions but it was an open discussion. In addition to this some additional questions were asked via e-mail in order to specify some details.

As the third part of the process is the writing of the manual, the third part of the thesis concentrates on the writing of the manual and its content. The manual is written in a form that would benefit the company as much as possible and clarify the details of the payroll for the employer. In addition to the benefit for the employer, the manual was also planned to be such that it can be given to the

employees in order to clarify the payroll of Saimaan Matkaverkko. The manual was written both in Finnish and in English.

Even though the three phases of the project were introduced separately, in practice they overlapped each other partly.

1.3 The aim and delimitation of the topic

The aim of the thesis is to develop a model for payroll of the employees of passenger ship M/S Brahe. Even though there are several departments in the company, the thesis will concentrate only on the payroll of employees of M/S Brahe as the problems have occurred with the payroll of this particular ship. Furthermore, Saimaan Matkaverkko Oy has several departments, and different collective agreements are used within the company, so there is no need to consider the payroll of e.g. employees in the office.

Also as the aim of the thesis is to simplify the payroll process and create instructions on how the payroll should be managed, there is no need to consider the tax and pension reductions as they are not related to the collective agreement or work legislation, but tax legislation instead.

1.4 Research methods

This study of payroll was conducted by using qualitative methods. The most typical way of doing a qualitative research is some kind of an interview, where the interviewee can express the facts and his opinion in his own words.

The researcher cannot decide the research methods but as the research is planned and the research problem and questions are defined, the form of the questions will tell which methods to use. The reason for choosing qualitative research methods in this study was that the main questions related to the topic were of the form “why” and “what kind of”, which means that the interest of this study is in non-measurable issues and finding out and understanding the reasons of, for instance, problems or phenomena (Tonder 2009).

The information about the current situation, history and the appeared problems was gained mainly through open interviews with the shipping company manager and by observing and by getting involved in the operations during the placement

period. In the interviews there were no specified questions but the interview was conducted more on discussion basis (Eskola & Suoranta 2003, p. 86). Most of the information was gained through discussions and observations during the placement and the interviews were mainly used to summarize and review the happenings of the cruising period.

In addition to the interviews and observing, e-mail was used to make some specifying questions about the details of the topic. The questions were about the numerical facts related to M/S Brahe, like the number of employees required, details about payroll practices and facts about the company. The theoretical background for the study was gained from literature sources and was analysed by using qualitative methods.

In the study it was important to find out the current situation from the point of view why there is a need to improve practices and what kind of problems have occurred, rather than making a study about if there is a need for improvements or if problems have occurred.

The thesis process was project based and the aim in such thesis processes is that the project will produce a concrete outcome. The aim in the project based theses is that they will in some way improve existing processes or educate the interest groups of the project (Vilkka & Airaksinen 2003, p. 9). In this case the outcome of the project was a manual and a template for payroll, which can be used in daily operations of the case company.

2 Payroll legislation and terms of employment

Payroll management is one of the most important operations of a company as its task is to ensure that the amounts of salaries are correct and that they are paid in time. People working in payroll management need to have good knowledge about the different laws and agreements to ensure that the wages are calculated correctly. Additional tasks of payroll management are payroll bookkeeping and assisting the work of managers. Payroll management and human resources management are closely related to each other and often in smaller enterprises the areas are combined and they might be the responsibility of one person. (Syvänperä & Turunen 2006, pp.12-13).

2.1 Legislation and agreements

Payroll is affected by different laws and legal agreements and thus it can become a very complicated process for a company.

According to Saarinen & Pietarinen-Björklund (2002, p. 2), the order of different regulations of payroll is:

1. *Constitution*
2. *Charter of fundamental rights of the European Union*
 - 2.1. e.g. *Free movement of labour*
3. *Unconditional laws*
4. *Normal binding collective agreements*
5. *Generally binding collective agreements*
6. *Half-imperative legal provisions, from which can be departed by the collective agreement*
7. *Some agreements specified in co-operative act*
8. *Contract of employment*
9. *Norms of collective agreement, from which can be departed in the contract of employment*
10. *Optional legal provisions*
11. *Regulations defined by the employer*

These regulations define the rights and obligations of both the employer and the employee. Regulation higher in the hierarchy overrules the regulations lower in the hierarchy if in contradiction. As an example, regulations defined by the employer are the weakest in legal sense and are overruled by any legal decree if in contradiction. On the other hand, the constitution is the basis for all other regulations. The constitution defines e.g. the principle of equality. (Saarinen & Pietarinen-Björklund 2002, pp. 2-4.)

In practice not all of these regulations are needed in daily operations of the company. The most important regulations for managing with daily operations are:

1. *Legislation*
2. *Collective (bargaining) agreement*
3. *Contract of employment*
4. *Regulations of working*
5. *Common practises on the workplace*
6. *Orders of the employer*

(Syv nper  & Turunen 2006, p.14)

Most important laws considering employment are Ty aikalaki (Working Hours Act, TAL), Ty sopimuslaki (Contracts of Employment Act , TSL) and Ty ehtosopimuslaki (Collective Agreement Act) but several other laws need to be considered as well with the payroll (Syv nper  & Turunen 2006). In the case of shipping industry there are some industry specific laws like Maritime Labor Legislation and Maritime Working Hours Act, which are applied only to work on vessels.

Collective agreement is a legal contract written by the trade union and employer organization and it defines the minimum level of working conditions (Eskola 2004, p. 9). The trade union of the seamen is The Finnish Seamen's Union. The agreement is made for a fixed term at a time and renewed frequently.

Collective agreements can be either normal binding or generally binding. Normal binding collective agreements concern the members of trade unions and employer organizations, meaning unorganized companies and employees are not bound to follow the agreement. On the other hand, generally binding collective agreements bind also the companies that are not organized, if more than half of the employees work for organized companies. However, in practise it is often difficult to define which collective agreements are normal binding and which are generally binding. This is why there exists a national committee which is responsible for defining if the collective agreement is generally binding.

(Saarinen & Pietarinen-Björklund 2002, pp. 2-15; Eskola 2004, pp.8-10; Syvänperä & Turunen 2006, pp.17-20).

The minimum conditions defined in the collective agreement are about

- *Determination of wages*
- *Wages*
- *Fringe benefits*
- *Average hourly earnings*
- *Sick pay*
- *Working hours*
- *Length of annual leave*
- *Holiday pay*
- *Notice period*
- *Group life insurances*
- *Local agreements*

Figure 1 represents the collective agreement system in Finland. Finnish government prepares the incomes policy and it negotiates a centralised solution with the Central employer organization and Trade union congress. After that the field-specific collective agreements are negotiated between the trade unions and employer organizations. On company level local agreements and contracts of employment are made with the employees or employees' representatives.

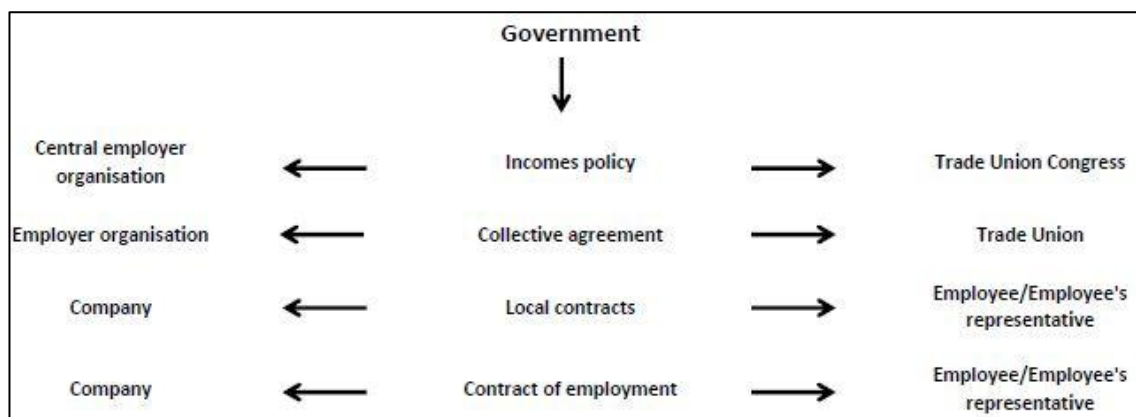


Figure 1 Collective agreement system (Eskola 2004, p.8)

Local contracts are written agreements which define the rules and norms for working in a certain company. The conditions can be defined to be better than in the collective agreement but not worse.

Contract of employment is a legal contract between the employee and the employer and it can be either written or verbal. Written contract is usually preferred in order to avoid misunderstandings and it is written in duplicate, one copy for the employer and one for the employee. Trade union of the seamen, The Finnish Seamen's Union requires that the contract of employment is done in written form and in four copies; one for the employee, one for the master of the ship and two for the employer (The Finnish Seamen's Union).

Maritime Labour Legislation and the Finnish Seamen's Union require that the contract of employment specifies:

1. *Name and port- and office of registry of the employer as well as the name, social security number and place of residence of the employee*
2. *Date when working begins*
3. *Duration and reason of fixed term contract*
4. *Trial period, if agreed*
5. *Vessel, where working takes place in the beginning of the contract*
6. *Qualification and position, or main duties of the employee*
7. *Collective bargaining agreement applied on work*
8. *Determination of wages and other compensation as well as pay period*
9. *Regular working hours or determination of working hours*
10. *Determination of annual leave*
11. *Period and terms of notice*
12. *If working takes place abroad for at least a month, information of duration of work, currency in which wages are paid, monetary compensations, compensations in kind and terms of repatriation of the employee*

(MTSL 1.3)

Common practices of the workplace are habits and norms which are not based on written or verbal agreements but have become common practices during time. Neither of the parties, employer or employees, cannot change the practice

without consulting the other one. This kind of practice can be for instance about the scheduling of lunch hours. (Syv nper  & Turunen 2006, p.14-15.)

Orders of the employer are regulations which have the least legal force if compared to other regulations in the hierarchy. The orders of the employer are instructions given during daily operations, e.g. solving minor problems. (Syv nper  & Turunen 2006, p.14-15.)

2.2 Characteristics of employment

Contracts of Employment Act orders that

”This law is applied to a contract (contract of employment), by which an employee or employees, together as a team are personally contracted to work, under management and supervision, for an employer, for wage or other compensation.” (TSL, 1:1.1.)

Characteristics of employment relationship according to TSL are:

1. *Employment relationship is based on a contract between the employee and the employer*
2. *The contract is always about working*
3. *Work is done for the employer and results of work are for employer to use*
4. *Employee works under management and supervision, and is committed to follow the instructions of the employer*
5. *Employee is working for wage or other compensation.*

(Syv nper  & Turunen 2006, p.20, according to TSL.)

These characteristics mean that the employment relationship is always based on a mutual contract for working, between an employee and employer, and there is always a compensation for the work. Compensation is usually monetary e.g. wage, but it can be also some kind of fringe benefit.

Contracts of employment act do not define minimum wage, but order that if there is no collective agreement, reasonable wage should be paid for work. Collective agreements on the other hand define the conditions for wages in much more detail. (TSL,1:2.10.)

Wage is the compensation for work, but there are different methods for defining the amount of wage. The most common forms of wage are either based on time or on incentive. The time wages are usually hourly, daily or monthly, so the amount of wage is related to the time that is used for working at fixed rate. The amount of wage per hour is based on the qualification and competence of the employee and on how demanding the work is. On the other hand the incentive wages are based on the amount or quality of the work. (Eskola, 2004.)

Collective bargaining agreement of domestic passenger vessel traffic defines the basic wages, evening- and overtime compensations and different wage additions. It defines the minimum wage per month, but in practice the hourly wages need to be calculated, as some working hours are more valuable than others. The monthly minimum wage creates the basis for the basic hourly wage. (Syv nper  & Turunen 2006; Eskola 2004; KMATES.)

2.3 Special characteristics of the industry

Finnish climate and the fact that at least lakes, rivers and the shallow sea waters are frozen during the winter time, creates a situation where shipping operations are practically impossible within Finnish inland waters for a notable part of the calendar year. In practice this means also that most of the contracts of employment on ships, like M/S Brahe, that operate only on Finnish inland and territorial shallow waters, are fixed term contracts. Finnish law requires that the fixed term contracts need to be justified or otherwise they are considered to be valid until further notice (TSL1:3). Justified reason for fixed term contract is for instance seasonal work.

One rather obvious special feature of the industry is that leaving the workplace is not possible all the time. If a waiter in a restaurant on land and a waiter on a ship are compared, the one on land is able to leave the workstation at any time, but the one on the ship needs to wait until the ship arrives at the harbour next time.

Furthermore, many times the ship is afloat longer periods at a time, which means that the employees need to live, sleep and eat aboard. In practice this

means that the employer is responsible for providing the food and place to sleep for the employees or compensating them otherwise.

2.4 Employee turnover

Even though M/S Brahe has operated for only one season, the employee turnover during the first season was rather considerable. High employee turnover rates are highly related to the seasonal nature of the industry and the employment relationships. Also according to the experience from the other ship M/S Carelia, it can be assumed that the trend will stay similar and the employees will change from year to year and also during the seasons. However, it should be pointed out that not all the vacancies are equally changing. On the first operating season for example the officers and the mechanics remained mostly the same during the whole season. Also the experience from M/S Carelia suggests that the key persons like the captain chief engineer and restaurant manager are likely to continue working on the ship. The employee turnover is highest among the waiters and deckhands.

2.5 Terms of employment

Collective bargaining agreement of domestic passenger vessel traffic defines the wages and terms of employment of domestic passenger ships.

2.5.1 Working hours

The collective agreement orders that the regular working hours are eight hours a day and 38 hours a week. The collective agreement allows also alternative regulation of working hours, but only if the employee and employer agree on those.

The regular working hours on vessels are between 7 a.m. and 5 p.m. Working outside these hours, that is between 5.p.m and 7.a.m are considered as evening/ night work.

Pauses are counted into working hours if they are shorter than 30 minutes (KMATES).

2.5.2 Wages & salaries

Wage or salary is a common compensation for work and it should be reasonable and commensurate to the experience, competence and abilities of the employee (TSL 1:1.1; Tilisanomat 1/2009, p. 63).

Monetary compensation on domestic passenger vessels is monthly salary, unless otherwise agreed. The salaries are divided into several classes according to the task on the ship, e.g. captain and waiter have different salary classes. The monthly salary is the basis for daily wage and different allowances.

Daily wage is calculated by dividing the monthly salary by 30. Different allowances that the collective bargaining agreement of domestic passenger vessels defines are evening/ night, Saturday and holy day allowance and weekday and holy day overtime compensation. Typical allowance is also an experience allowance, which is a percentage increase on monthly salary. (KMATES.)

3 Payroll bookkeeping

A paymaster is liable for keeping book about payroll if it transacts a business or if it is of some form of a company, for example a limited partnership or limited company. Payroll bookkeeping means that the employer follows and records transactions related to the payroll and produces and collects documents for bookkeeping purposes. (Syvänperä & Turunen 2006, p. 170.)

3.1 Content of payroll bookkeeping

The information that is entered into payroll bookkeeping consist of transactions and payments to the employee. Most important information is of course the amount of monetary compensation, but also information about fringe benefits, pension payments, social security payments and tax-free benefits are entered into payroll bookkeeping. (Eskola 2004, p.152.)

3.2 Documents

Employer is liable to produce or collect several documents for payroll bookkeeping. Depending on the amount of employees and how frequently

wages are paid, the company needs to produce different documents for bookkeeping purposes. Most important documents for payroll bookkeeping are:

Verokortti (tax deduction card) is a document that defines the tax percentage of the employee. Finnish tax office delivers the tax deduction cards for each Finnish citizen who is at least 15 years old (Verohallinto). The employee must deliver his own tax deduction card to the employer for payroll purposes.

Palkkakortti (pay sheet) is a document which shows the details about the wage payment, amount of wage and deductions, on a monthly basis. The employer must compile a pay sheet for each employee within the company, also for short or occasional employments. The pay sheet shows among other things

- personal identity information about the employee,
- tax percentage and limit of annual income,
- period from which the wage is paid
- amount of wage
- amount of fringe benefits
- deductions

(Eskola 2004, pp. 152-153.)

Palkkalista (Register of wages) includes information about all wage payments on a certain pay day. The information is mostly the same as in pay sheet, but the information is from all the employees from one period only. (Eskola 2004, p. 154.)

Palkkasuoritusten yhdistelmä (Combination of wage payments) is a document which shows the sums of all wages, deductions, social security payments and number of employees in that particular month (Eskola 2004, p. 155.)

3.3 Audit trail and storing of the payroll bookkeeping

The payroll bookkeeping is only one part of bookkeeping and thus the results of payroll bookkeeping must be entered to the general bookkeeping of the company. The bookkeeping must be overall traceable and the audit trail of different payroll entries must be continuous. (Syvänperä & Turunen 2006, p. 176.)

Most of the documents related to payroll bookkeeping need to be stored for ten years. There are some exceptions, like the hour sheets, which need to be stored for six years. These limits are the minimum limits defined in the bookkeeping legislation, but the companies can plan their own practices for storing the documents depending on their needs. (Syvänperä & Turunen 2006, pp. 179-180.)

4 Corporate acquisition – Aims, challenges and integration

A company can grow basically in two ways – either by expanding operations little by little over time or by buying another company or departments of it and integrate them into its own operations.

Even though buying a cruise ship from another cruise line company is a rather special case, Saimaan Matkaverkko purchasing M/S Kristina Brahe can be considered as a corporate acquisition. Similarly a physical place of work and employees change the owner.

4.1 Aims of a corporate acquisition

Corporate acquisition can have several motives, but the company is always going after some kind of benefit. These benefits can be for instance a greater market share, new market areas and development of the product line. The company can also try to avoid competition by buying a possible competitor. (Erkkilä 2001, p. 21, 30.)

Typical for a corporate acquisition is that the company is purchasing total or partial solutions, which are then combined to the operations and knowledge of the buyer. By doing this, the buying company is going after for new possibilities in their operations, without the need to start operations from scratch. (Erkkilä 2001, p. 21.) This means in practice that as a company buys another enterprise, it does not buy only the physical machine or building, but the aim is also to gain the customers of the bought company. This is a much quicker way to gain several customers as the company has already an existing market share and client base. Also the infrastructure of the company, business idea and the products are already established, which is a rather ideal situation to the company and gives a quick start. (Meretniemi 2008, p. 21 .)

4.1.1 Lack of resources

Usually in the case of small and medium sized companies, there is no appointed acquisition team, but the people responsible for acquisition and integration are doing it along with their daily work. Also the ones who are responsible for integration are not the ones who are responsible for carrying out the integration on practise level. (Erkkilä 2001, p. 37).

4.1.2 New situation

Another characteristic of a corporate acquisition is that even normal, daily operations are taking place simultaneously and possibly quicker than usually. If they took place separately and in ordinary circumstances, there would be no challenge in managing them, but during the acquisition process many ordinary operations can become challenging. (Erkkilä 2001, p. 37.)

4.1.3 Communication

Other challenges are related to the communication and integration of management. When two companies integrate, it is not just about combining the operations, but also combining and integrating the corporate cultures. As both companies have different backgrounds and management styles it forces the buyer to think and plan how to combine the cultures of the two companies. Even in the case where the companies have similar profiles and operate in similar market, where one could assume that also companies' internal operations are somewhat similar the buyer might notice notable differences. (Erkkilä 2001, p. 44-64.)

4.1.4 Loosing of customers

One suggested benefit of corporate acquisition is that the regular customers of the bought-company will become the customers of the buyer-company. However, this is only an ideal situation, and the company cannot rely on that. One of the challenges in corporate acquisition is how to ensure that the customers do not abandon the company after the change in ownership. Possibilities are that the customers do not trust the new owner and thus leave the company. The buyer should also be careful with the changes, as too quick

or too dramatic changes can as well alienate the regular customers. (Meretniemi & Ylönen 2008, p. 21.)

4.2 Integrating the companies

The acquisition process includes several phases and the integration of the companies starts already before the actual acquisition has been made. In order to integrate the companies successfully, the buyer should start to familiarize oneself with the company and its operations and practises ahead of time. (Erkkilä 2001, p.84-88.)

Typical phase in the acquisition process is due diligence, which is a name used for a check of the condition of the company that the buyer does prior to the acquisition, to ensure the condition of the company and that its operations are on appropriate level. This phase includes several sectorial checks and also issues like the practices of the seller should be found out in order to ease the integration process. Different sectorial checks are done for example on sectors like: business administration, human resources, information systems and technology. (Erkkilä 2001, p. 72-76.)

From payroll point of view, the human resource due diligence is the most important. Human resources due diligence includes a report about issues like the age range of the employees, wage levels, bonuses, fringe benefits and the employee turnover. It is important for the buyer to find out the practices of the previous owner as there can be notable difference in the practical issues but also on the wage levels. For instance in the case, where the buyer is smaller or newer in the market than the bought company, it can be that the wage levels of the buyer are significantly lower from what the seller has had. This forces the buyer to make plans on how to manage the compensations in a way that that neither, the old nor the new employees feel that they are in worse position. (Erkkilä 2001, p. 77.)

4.3 Successful corporate acquisition

Corporate acquisition is complicated as several factors and details need to be considered and managed simultaneously. Company integrations are not always

successful and quite often the reason for failure is that some important factor or factors are not taken into account. (Erkkilä 2001, p.15, 37.)

This is why the company should use time for planning the integration process, step by step, so that all possible issues are taken into account. A fact is that as in many other things in life, planning is important also in corporate acquisition as the plans tend to become reality. The company should make written plan where every step of the process is described in detail. Also possible risks should be identified in the planning phase in order to avoid them. (Erkkilä 2001, p. 195.)

In addition to planning it is also important to make sure that the people who are affected by the integration are aware of the details of the plans. As important as planning is communication within the key persons of the integration in both companies. Planning the process does not help if the people executing the plans are not aware of them. The communication should not only be limited to the core group, but openness in communication leads to success in corporate acquisition. As the acquisition is a change it can cause resistance among employees. Thus the company should inform the employees frequently during the integration to make them accept the change. (Erkkilä 2001, p. 106-118, 186-191.)

Communication between the companies on different levels is also a way to transfer the tacit knowledge and know-how within the company. The value of tacit knowledge cannot be measured in monetary terms, but it is necessary for the success of corporate integration and continuity of business operations. (Heinonen 2005, pp. 42-43.)

The buyer should also find out the agreements and common practices within the company, as they can differ from national agreements or laws. Companies have the right to make agreements with their employees, as long as they are in compliance with the law and binding industry-wide agreements, like collective agreement. The company should make clear agreements with the employees, whether the conditions are changed or not. (Erkkilä 2001, p. 138)

The communication should also be continued after the ownership has changed and the business starts to operate. In corporate acquisition theory there is a

concept of 100 days, during which the company should be operating normally. Communication during the first months is vital in order to find out possible problems and to unify the practices in the companies. (Erkkilä 2001, p. 144)

5 Current situation

Saimaan Matkaverkko Oy operated M/S Brahe for the first season in summer 2011. Many things were new and there came some problems and questions related to the payroll.

5.1 Current payroll process

Nowadays the trend is that operations, like payroll management, which are not directly related to the core competence of the company, are outsourced (Syvänperä & Turunen 2006). According to theory, this kind of arrangement seems a clear and suitable solution for a small tourism enterprise like Saimaan Matkaverkko Oy.

Currently the payroll management is outsourced to an accountancy company operating in Lappeenranta. The responsibilities are divided in such a way that the client, Saimaan Matkaverkko Oy is responsible for the practical actions related to payroll. It means that the client is naturally responsible for hiring the employees as well as agrees on working conditions with them. Additionally they keep record on working hours and collect different documents, e.g. tax deduction cards, needed for payroll. On an agreed date, in the end of the month, the lists of working hours, tax cards, contracts of employment and possible additional documents are taken to the accountancy company. The accountancy company is responsible for calculating the earnings of each individual employee, according to the legislation, collective agreement and contracts of employment. The accountancy company is responsible for calculating the gross wages and reducing tax, pension and other possible deductions required by the law. After that the accountancy company sends the payslips back to Saimaan Matkaverkko Oy, where the bookkeeper transacts the salaries to the employees' bank accounts. (Laine, 2011).

5.2 Current problems

During the operating season 2011 some problems occurred with the payroll. Many of them were related to different opinions about the contents of the collective agreement, but also some practical problems occurred.

5.2.1 Interpretation of collective agreement

Legislation and other legal documents like collective agreement are usually written using complex vocabulary and expressions and are thus difficult to understand. This leads also to the fact that it is quite usual that the different interest groups interpret the decrees differently.

Shipping industry has some special characteristics from the point of view of payroll, if compared to the similar kind of tasks on land and the terms of employment are not always comparable.

During the operating season 2011, there were some misunderstandings between the employees and the employer about the working conditions.

5.2.2 Practices of the previous owner

Another problem with payroll is related to the history of the ship and its employees. As Saimaan Matkaverkko Oy bought the ship M/S Brahe in 2010 from a company Kristina Cruises, some of the employees of Kristina Cruises became the employees of Saimaan Matkaverkko Oy. Even though the contract between Kristina Cruises and Saimaan Matkaverkko Oy did not cover employees, still some of them were willing to continue working on the ship, under a new employer. According to the shipping company manager of Saimaan Matkaverkko Oy, Jussi Laine, it was an extra benefit for the company. However, it has caused some unexpected difficulties related to the payroll.

In addition to the regulations defined in the collective agreement, Kristina Cruises had developed some practises of its own for managing payroll; for instance some benefits were better if compared to the collective agreement. However during the transaction and change of ownership, the new owner did not receive all the necessary information about these practices. This would not

have been a major problem, if Saimaan Matkaverkko Oy had not promised the same conditions of working for the transferring employees. As there were employees who were willing to continue working on M/S Brahe, Saimaan Matkaverkko promised that the working conditions, for example wages will remain the same as with previous employer.

This lack of information evidently caused some misunderstandings between the employees and the new employer, as the wages and additional benefits were not similar as under previous owner. Most of the questions from employees' side about the payroll have concerned the relation of working days and day offs. The officers originally from Kristina Cruises had previously had a system, where working on certain days is compensated by extra days off. However, this kind of benefit was not written to the collective agreement, there were confusions and uncertainties of the exact details of the benefit and its conditions.

5.3 The accountancy company

The payroll of M/S Brahe is outsourced to an accountancy company in Lappeenranta. They are responsible for calculating the wages and deducting the taxes and social security payments from the wages.

The accountancy company had been calculating the wages of M/S Carelia so it was natural that they took care of the payroll of M/S Brahe as well. The problems were a result of lack of information during the corporate integration. The information about exact details of the agreement between Kristina Cruises and its employees did not fully reach the accountant of the accountancy company in Lappeenranta. This caused a situation where there was uncertainty what the conditions for extra days off are and the method used differed from month to month. The mistakes were corrected as soon as they were noticed but they caused a lot of work that could have been avoided.

According to Jussi Laine, the problems in communication during the integration were result of human factors and there were misunderstandings between the accountants of Kristina Cruises and the accountant of accountancy company who was responsible for payroll of M/S Brahe.

5.4 Practical problems

Some confusion with the payroll is related to the instructions and informing the different parties about practical issues. At the moment there is no agreement on by whom, how, and when the hour sheets, tax deduction cards and possible powers of attorney for subscription of Trade Union are delivered to the office. The date is agreed with the accountancy company, but not within Saimaan Matkaverkko Oy, ship and the office. This lack of information has caused the situation that the employees do not deliver the needed documents in time and thus the delivery of the documents to the accountancy company is delayed. Fortunately this has not resulted as delayed payment of wages but has caused confusion between the ship, the office and the accountancy company.

Another practical problem is due to the fact that M/S Brahe does not visit Lappeenranta harbour every day, but when it is on a cruise it can be away for a couple of days. This causes also challenges for delivering the hour sheets, as they cannot be delivered before the month ends but neither can they be delivered several days later as there is also a deadline for paying the wages.

6 Development and content of the manual

The aim of the manual was to clarify the orders of the collective agreement so that situations where there are several opinions about the content of the collective agreement could be avoided. The manual can be used when the wages are counted, but also when new employees are recruited the manual can be used to explain the conditions for paying the wages. The manual obeys the orders of the law and collective agreement but does not replace them. If the orders of the law or the collective agreement change, the manual needs to be changed accordingly. The content of the manual follows the content of the collective agreement, but there are some modifications that were considered to be necessary for Saimaan Matkaverkko. The modifications were done within the frames of legislation and collective agreement. The manual is meant to be updated also in a case when Saimaan Matkaverkko makes agreements with its employees.

The manual contains information about those areas of payroll management that are important from the point of view of Saimaan Matkaverkko. The idea of the manual is to collect the most essential regulations from legislation and the collective bargaining agreement into one document and to create a tool that eases the work of the person responsible for payroll.

The manual consists of three main categories. The first part deals with practical issues of the payroll, like the responsibilities and scheduling of operations. The second part defines briefly the most important terms of employment. The third part of the manual deals with the wages and allowances. The manual does not deal with taxation, social security- or pension payments because those issues were not causing the problems with the payroll.

The manual in its present form is very simple and everything that is not essential for the daily payroll process is left out from it. In the employment legislation there would be numerous decrees which one might need in special occasions of the payroll. However, the idea of the whole project was to write a simple manual, which would be easy and quick to use in daily operations, without the need of spending hours and hours reading different agreements and laws. Not all the possible circumstances are part of daily operations or part of payroll.

6.1 Introduction

The introduction explains briefly the framework of the content. The laws and collective agreement, on which the manual is based, are introduced. It is also explained that the manual is only for use in the case company Saimaan Matkaverkko.

Another important thing that is written in the introduction is that the manual follows and obeys the law and collective agreement. If the Finnish government makes any changes to the decrees of the law, or the trade unions make changes to the collective agreement, the manual needs to be updated accordingly.

6.2 Practical issues related to payroll

The first section of the manual consists of practical advice that could clarify the payroll process, as some problems with payroll were merely a result of confusion, for example, in division of duties.

The main problem was that the hour sheets and tax deduction cards were not always delivered in time to the employer and the accountant. The reason for this was that there was no proper agreement about who is responsible for collecting all the sheets and other documents from the employees and delivering them to the employer. Sometimes one member of the crew collected most of the sheets and then a couple of sheets were delivered later on. This kind of unclear arrangement has caused a lot of unnecessary work and confusion with the payroll.

In the manual it is suggested that one member of the crew is chosen to collect all the documents needed for payroll and delivers them to the land office on certain date. It is also suggested that the person responsible for collecting hour sheets of the employees, takes copies out of them before delivering them to the office. This kind of arrangement is not difficult to organize but it will simplify and clarify the process a lot and thus lots of unnecessary work is avoided.

The first section includes also the instructions for making the contract of employment. This chapter is important because the law and the trade union define how the contracts of employment should be made.

6.3 Definition of most important terms of employment

The second section deals with the most important terms of employment from the point of view of payroll including information about working hours, practical arrangements of paying of salaries and the working titles.

6.4 Compensations

The third section of the manual deals with the different compensations and is thus the most important section of the manual, regarding the actual payroll. The third section contains the details about regular working hours and non-regular working hours. Also the monetary compensations for different non-regular or

special working hours are written accordingly. In addition details and conditions for special compensations, like experience compensation, are explained in the third section.

7 Discussion

Payroll is a very sensitive operation for a company for a couple of reasons. As Finnish law does not determine minimum wage, but only orders that the monetary compensation should be sufficient for each work task, it would be a very difficult task for companies to determine what is “sufficient”. However, the case is that the power for determining the minimum wages is given to trade unions that represent the labour force in Finland. Almost each industry has its own union, which then negotiates with the union of the employers and finally they end up with a collective (bargaining) agreement and it is valid for a certain period of time and after that it is renewed or a new agreement is negotiated. (Syv nper  & Turunen 2011, pp. 17-19.)

Unfortunately even this kind of arrangement does not make payroll process easy for a company. As I found out during my placement in Saimaan Matkaverkko Oy, payroll can be a difficult operation even for an accountancy company, if there is lack of information. This is due to the fact that, even though Finnish law does not determine minimum wage or salary, there are still several acts which determine other working conditions, such as working hours, vacations and sick leaves. There is also separate working hour legislation for some special industries, like shipping industry, which differs partly from the general working hour legislation. In addition to this, some of the decrees of the law are such that the trade unions can differ from them in the collective agreements and furthermore the companies can change them as long as they do not worsen the working conditions provided in the legislation. The system is of course good in the sense that it supports the labour force and ensures appropriate conditions for working but on the other hand it causes a lot of work for the employer. It can be very demanding to try to find out the correct decrees

from the complicated legislation, where one degree can be overruled by another one in certain occasion but some provisions are peremptory.

As the case shows, problems in communication cause totally unnecessary difficulties. During the corporate acquisition, where M/S Brahe was purchased some essential information about payroll was missed. Even though the question was only about details of the payroll, this caused problems for almost the whole operating season. The situation might not have become as complicated, if the decrees of the collective agreement were simpler and such that there would not be possibility for interpreting them in more than one way.

The aim of the project was to familiarise with the payroll process, especially from the point of view of agreements and legislation and to write a manual that would clarify the process. During the project it became clear that the problems that Saimaan Matkaverkko had in the payroll were not very serious, but the main reason for the problems could be stated as lack of information. The problems probably started from the fact that Saimaan Matkaverkko did not receive all necessary information regarding the payroll practices from the previous owner. However, the aim of this study was not to find out the guilty ones but try to find out what the actual problems were and furthermore solutions to them.

As the reason for problems in the payroll was mainly uncertainty which working conditions are provided in the collective agreement and which were agreements between the previous owner and its employees, the manual was written in order to clarify them. When the manual was written, it was frequently reviewed by the representative of Saimaan Matkaverkko to ensure that it will correspond to the company needs.

The content of the manual was chosen to follow closely the collective agreement to ensure that the manual complies with the law. This was because Saimaan Matkaverkko wanted to have a clear manual that would have only the legal provisions but in a clearer way than in the collective agreement. The manual needs to be updated if the provisions of collective agreement change. Overall the manual is meant to be the basis for the payroll conditions and it the

company can make its own additions and changes in it in the future if it recognizes a need for them.

The manual concentrates on the most essential issues of payroll: wages and other compensations. The manual does not include any information about taxation of the wages and only a very short explanation about holiday wages, as they were not considered to be important from the point of view of the topic. The aim was only on finding out the amounts of compensations.

Even though the manual follows closely the collective agreement, some instructions and conditions were added in order to solve some problems that had occurred during the first operating season. For instance, a practice for collecting and delivering the tax deductions was introduced, in order to ensure that the paying of wages is not delayed due to problems in documents. The challenge however in this is that even though now in the manual there are instructions that one employee has the responsibility to collect the documents and deliver them in time, the precise directions can be given only when the schedule of the cruises is ready. This is due to the fact that as the ship does not necessarily visit Lappeenranta harbour every day, the documents can be delivered only when the ship is there. Only after the plan for schedules is ready, also the dates for paydays can be set and furthermore instructions for collecting the documents can be given.

Another major addition was the introduction of compensation for on-call shift, which means that a fixed sum is paid for an employee who is on-call during nights that the ship is in the harbour. This was introduced due to the fact that as the employee cannot leave the ship it was considered to be fair to give a monetary compensation per night in on-call shift.

The manual that was written, gives the general conditions for working that are used when employees are hired. However, the company and individual employee can make also a contract with different conditions, if so agreed. In such a case the conditions need to be at least as good as provided in collective agreement.

8 Conclusions

The aim of the project was to find out the reasons and consecutive problems that the case company, Saimaan Matkaverkko, had with the payroll and after this to create a manual that would reduce problems in the future. The manual was planned to be such that it will be useful for both the employer and the employees, in a way that employee can use it in daily payroll operation and it can also be used to clarify the details of the payroll to new employees.

The thesis process was not carried through exactly according to the original plan but it was revised and modified during the process, which is typical for a thesis using qualitative research methods (Eskola & Suoranta 1998, pp. 15-16). During the process it became clear that the pre-assumptions regarding the project were not fully correct but there was a need to modify them during the process.

The major issue was related to the outcome of the project. The original plan was not to create a manual but more like a template that would be used in actual calculation of wages. However during the study it became clear that rather than template there is a need for a manual that will clarify what are the provisions of collective agreement are and what agreements are made within a company. The template would not have helped solve the problems in Saimaan Matkaverkko.

One challenge of the project was related to the theoretical background of the payroll management. As Saimaan Matkaverkko is a Finnish company and it operates in Finland, it needs to perform its operations according to Finnish law and regulations, which applies to the payroll management as well. The payroll in Saimaan Matkaverkko needs to be managed according to Finnish employment legislation. This caused a situation that most of appropriate and essential information about theory of payroll was written in Finnish. This is of course understandable as the employment legislation and regulations related to payroll differ from country to country, so the literature related to the topic is only in official languages of Finland. As there is no information about Finnish payroll in English, it means that several legal expressions and terms needed to be

translated from Finnish to English. Another issue related to the literature about payroll is that the amount of quality literature concerning payroll is minimal if compared to some other fields like marketing. This can be seen in the fact that the few, good sources are used multiple times during the thesis.

This study started from a real need for development and the information concerning the problems and happenings during the sailing season was mainly gained through one's own observations during the placement period and interviews of the shipping company manager. The placement period was very important from the point of view of this study, because such information that is gained through observing and participating for a longer time is difficult or even impossible to collect otherwise. Through the placement it was possible to have an insight to the operations and have first-hand information about the situation. The interviews had an important role in finding out about the purchase process, but also to summarize the happenings of the operating season and to have a viewpoint of the case company.

This study was successful in the sense that no major problems occurred during the process and the outcome of the project was a concrete document as was planned. Even though the outcome of the project changed content-wise during the process, it was rather natural for a qualitative research. The content of the manual follows strictly the provisions of collective agreement and no major modifications or company's own conditions were introduced. This was the decision made in cooperation with the case company. However, this manual can now be used as a basis for future development of the payroll conditions. The collective agreement and its conditions do not fully satisfy the needs of the operations of the case company. The payroll conditions are perhaps written for different kind of cruise operations. Due to this fact, it might be realistic to assume that the manual is modified in the future in order to create company's own system for payroll conditions. However, this manual creates a good basis for that as it is important that the legal provisions are fully understood and known before company's own modifications are introduced. Another issue is that as the collective agreement is renewed and updated frequently, the manual needs to be updated as well to ensure that conditions comply with the collective

agreement. The collective agreement expired in the end of February 2012, which means that when the new agreement is published, it must be revised and possible changes need to be made to the manual.

The study was limited to cover the payroll process of the case company and the emphasis was on legislation side of the topic. In future a possible topic for study could be for example related to developing the manual further.

As final words of this process it can be stated that payroll management is an important part of operations of a company; but especially in tourism industry, where the main resources of a company are the employees, the importance of payroll management is even greater. Payroll is affected by many different laws and by collective agreement and it is important for all the parties to familiarize with them. The communication is the key to success also in payroll management. If communication works properly within the company and also between the company and possible accountancy company, payroll management will not be a problem. As the case showed, the reasons for problems can be minor, but it is important to solve them in order to create a well-functioning working environment.

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