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Refining Internal Process for Finance Product

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Writing this text feels great and it tells that the long journey of this study program is almost over. I have gained so much new understanding of the business sector I am working, and it was very educational to study this program next to working.

I want to thank all the people who have walked the journey with me and helped me to pass every task during it. Big thanks to my thesis supervisor Antti Hovi, who pushed me through the last wall which felt impossible in some point. Thanks to the case company for providing me the thesis project theme. Thanks to my colleagues who have encouraged me in every step of the studies and been interested of it. I want to thank my class mates who made the program so interesting and the lessons were always full of discussions, different views and thoughts.

And the last but not the least, I want to thank my family who gave me the needed time to finish the studies and had always lot of understanding. I have promised not to study ever again, at least not for a while. Thank you all. Now I will enjoy this achievement, cheers!

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<p>The purpose of this thesis was to refine an internal process for a finance product in the case company and to create work instructions to support and to ensure the business in future. The case company is an international corporation in the financing sector working in the Nordics and serving both personal and corporate customers. The target unit of the thesis project assists exporting and importing customers with payment, financing and risk management services. The need to refine the internal process arose after the company noticed a long process time and unclear instructions for a specific finance product. The importance for this project was becoming more important after increasing the product volume and changing the requirements in the business sector. Within increasing volumes, the process needed to be well described and the knowledge of the proceedings had to be spread for more employees in the unit.</p> <p>The conceptual framework focused on business and process development. Qualitative research methods were applied in the thesis. Data was collected by interviewing the employees working with the product and the process. The company's internal documents and instructions were also part of the data collection.</p> <p>The research revealed several issues in the current process which were causing delays and the process was ineffective. The output of this project was a refined internal process with new work instructions and the final proposal was validated with the case company key stakeholders.</p> <p>The final proposal was as expected and the case company was pleased with the outcome. The refined process could not be implemented in time because of internal changes in the case company but as soon as it will, the refined process should affect positively to process handling times and it should raise satisfaction of the employees and the customers.</p>	
Keywords	finance, finance product, process refining

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1 Introduction

Effectivity, agility and reliability, the key words for today's business life. Every company aims to fulfill these in their daily business no matter in which industry they are acting. The evolution in information technology is one of the most interesting areas affecting to business and the high speed in evolution force the companies to focus on developing their internal systems and processes to be more competitive.

Information technology is a critical success factor for the organization. In financial industry information must be reliable, correct and transferable from counterparty to another. In the recent years technology has been having dramatic effect on the transformation of the financial sector. Digital revolution has been affecting financial services and Information technology trends such as mobility and consumerization have had effect on the financial industry as well.

Third very notifiable characteristic is the increased role of information security as the cyber security landscape is becoming more and more complex. The increased compliance and information security needs may cause financial institutions some struggles in utilizing the latest technology trends as cloud-based services for example. These trends have affected also to the case company to reform their systems and processes to be up-to-dated.

1.1 Key Concept

Foreign trade is very important to small and open market economy as Finland is. The importance of foreign trade has been noticed especially on the challenging times like economy bear market. For the companies doing foreign trade have several points to consider before starting foreign trade or when expanding to new market areas. There are differences in language, culture, regulations and climate as well as a longer distance between you and your counterparty which affects also the delivery of the goods.

Different risks need to be considered and managed when doing these trades like; customer risk. Counterparty might be unknown and there are no guarantees of the payments. Other relevant risks are country and political risks, meaning for instance risk of changes in trade regulations or risk of war. In these challenges the companies should consider their own risk management and which risks are acceptable and which are not. There are several possibilities to share the risks with other counterparties like financial institutions and export credit agencies. Companies should have their own risk policy in place specifying these acceptable risk levels. Another aspect is the cash flow and finding a solution to optimise it. Often the buyer requires longer payment terms and those requirements might be challenging for the seller to handle without special arrangements. Cases like these, the financial institution is the right counterparty to arrange a finance solution to the trade.

Finance is an important part of the different services the financial institutions are offering to its clients. Well planned cash flows and selling processes are beneficial to the export companies and for those needs the financial institutions are offering their advisory and expertise. The case company of this research has an extended finance offering and the solutions can be tailored by the different needs. This project will handle only one finance product and its process.

1.2 Case Company Background

The case company is an international corporation in financing sector working in Nordic level and serving both personal and corporate customers. The unit this project will be done for is assisting exporting and importing companies with payments, financing and risk management services. The case company has invested a huge effort to digital transformation in which will change the core working platform to new digital platform. The aim is to become an efficient end-to-end digital organization, operating with common processes, products, systems and with a shared culture and passion for its customers and different stakeholders. The change will be enormous and requires lot of investments to gain the wished result. One important part of the digital transformation is the co-operation with different Fintech startups during the transformation. New ideas and working models are needed and the most effective way is to do co-operation to gain the best result.

The case company have been focusing on digitalization and system developing which are important parts of competitive strategy to differentiate from competitors. Case company has prior on system developing in all business areas and have common systems to work in one platform. This has required a huge investment in finance side as well as in the work force side. The case company believes this enables the future success. Digitalization is the biggest and one of the most important part of it. Other valuable and important things are also the professionalism, reliability and agility in the business. In product side the case company is searching possible ways to do business easier and more automatic way. There are many projects going on and new working methods are in search.

1.2.1 Business area

The foreign trade unit this case study is made for is focused on international business and providing services and tools for corporate customers to minimize their risks in foreign trade business and to improve their cash flows. The supply chain can be shown with a simple picture where are three stakeholders; Case Company, Exporter and Importer.

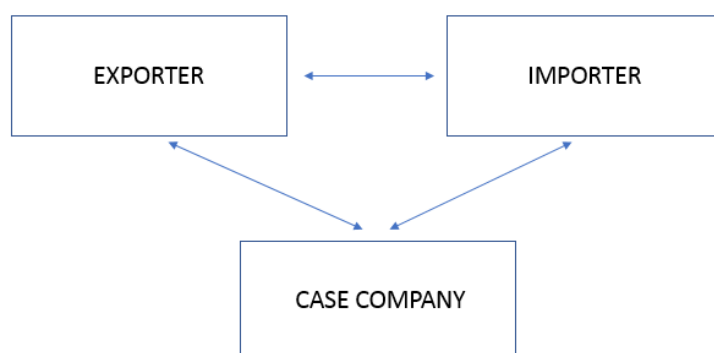


Figure 1. Supply Chain

1.3 Business Challenge

As mentioned already, case company is renewing their system platforms and focusing on digitalization. This forces the different units to view their internal systems and processes to become more efficient and automated. The aim is to have products processed in same systems with simplified processes and as automated as possible. To-

day all the current systems are not communicating and working together and the data need to be transferred manually from system to another. This is not a desired situation. This is one reason why the finance process has to be refined and handled in a system which communicates with other systems in the unit. The process should be also clear and more automated. The current process is executed by two different teams in different units which affects negatively to the internal handling times.

The finance should be executed with more cost and time efficient way and the knowledge of the process need to be spread to more employees. Currently only three employees are working with the finance in the other team which is responsible of the product and the customer service. Situation is risky when thinking possible sick leaves or employee turnover. The importance of this process refining came more important after increasing volumes of the product and the happened turnover of the employees. Within increasing volumes, the process has to be well described, efficient and possible to copy to other units in different countries. The purpose of the thesis project is to refine the internal process and to create work instructions to support and to ensure the business in future.

The product itself is good and much used among the customers and from customer point of view it is working well and overall the customers are pleased. The challenges with the current process are more internal and the case company sees a possibility to be more effective. However, with better working process the customer gets their service faster which will affect positively to their customer satisfaction.

1.4 Objective and Scope

The objective is to refine a process to a finance product. The aim is to have a simplified process which could be handled more efficient and the refined process should require less employees executing it in the systems. There is a need to release workforces to other work tasks in the unit. It is also important that the process can be executed by employees who are not familiar with the product itself and the process itself could be copied to other units or countries in future. This means the internal work instructions need to be created and documented.

2 Method and Material

The aim of this section is to provide an overview of how the research has been executed. First there will be a research approach and design, then second part handles data collection and analysis and the last part handles the validity and reliability plan.

2.1 Research Approach and Design

The research approach can be executed with different ways like for example using quantitative research method which is based on measurement and is performed controlled and systematic way (Hagan 2014) or then qualitative research method which is performed on individual experience and opinion and the research is more illustrative. (Patton 2015). In this project will be used qualitative research method.

The project will start from the business challenge the case company is facing with the finance process and the will of developing the internal process. When the business challenge has been recognized and a proposal to develop the process has been raised the current state analysis will be presented. After this stage it is convenient to interview the employees working with the product who have the most important knowledge of the process and the best view of current situation. Next to the current state analysis is important to read literature of the business and process development. After all the received information has been analyzed, it should be possible to build a proposal of refined internal process. Finally, it is important to receive feedback of the proposal and based on the feedback, do needed corrections before implementing the proposal in use.

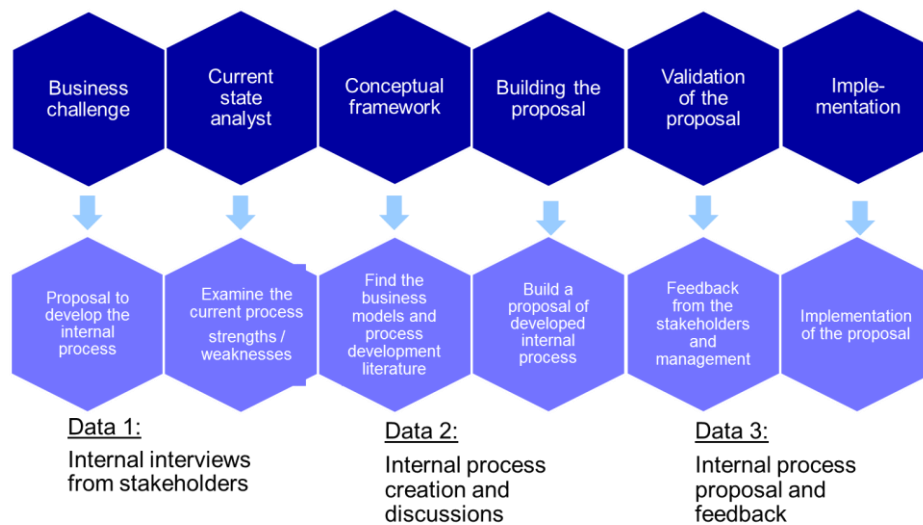


Figure 2. Research Design

2.2 Data Collection and Analysis

Data collection for this research will be gathered through three different steps. Data 1 will be gathered through semi-structured interviews of the employees working with the finance product and process and from my own experience. I have been working with the product several years, so my own view of the current process is good, and I have a view what could be done to get the process more effective. Semi-structured interview means that the questions will be pre-planned with open end and the interview will be more conversational. The questions will be same for all the interviewees and will be asked in same order. (Patton 2015). The semi-structured open-end interview is efficient way to do the interview and enables to focus on the most relevant issues. This data will be analyzed through qualitative research method because the interview is done to three employees working with the product. Qualitative research method means focusing on individual experience and opinion and the research is more illustrative. (Patton 2015). Internal knowledge and instructions will be checked and analyzed next to the interviews. Through these steps the current state is possible to perform and analyze.

Data 2 will be gathered by creating a proposal of new process and have discussions about the ideas with the team working with the finance product. Different views and

experiences are important to take in consideration when building the new proposal. The new process has to be well working and all different steps need to be checked and thought through before presenting it forward. After the discussion the corrections will be done to the proposal itself.

Data 3 will be the final proposal itself and it will be proposed to the team and the management. The final proposal can be implemented into action in the timeline represented on the next section.

	Purpose	Data type	Data source	Analysis
Data 1	To understand the current process strengths / weaknesses	Interviews Observations Internal documents	Team working with the product Notes Current work instructions	Section 3: Current State Analysis
Data 2	To build the proposal	Discussions with the stakeholders Internal documentation	Team working with the product and the management Data base	Section 5: Building a proposal for the Case Company
Data 3	To validate the proposal	Discussions with the stakeholders	Final proposal	Section 6: Validation of the proposal

Figure 3. Data Collection

2.3 Validity and Reliability Plan

Timeline for implementation is described below. The plan composing started on week 39 by describing the business challenge. The next step was current state analyze which was gathered from the interviews of the employees, my own experience and the internal information of the product and process. The process change can be implemented on week 50. Nevertheless, the actual implementation will be transferred to year 2019 because of internal changes in the case company. Otherwise the plan could be implemented in few weeks after the final proposal has been introduced and accepted and new work instructions are available.

Timeline for implementation

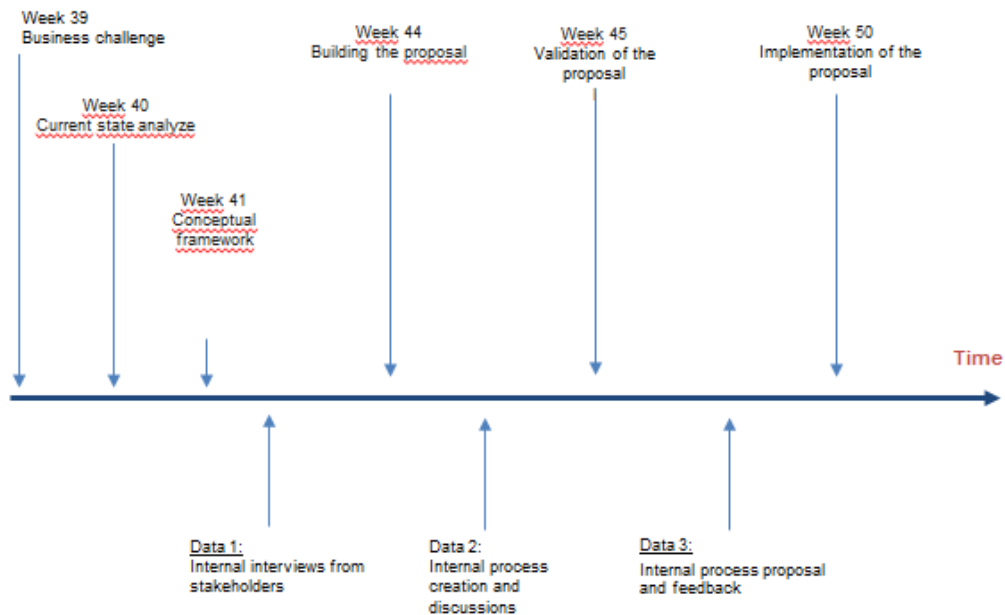


Figure 4. Timeline for implementation

3 Current State Analysis

In this section will be presented the current state of the finance and its process by analyzing the available data. The data is collected from the interviews organized to the team working with the product, my own experience and the available internal information about the finance and its process as described in Data Collection – section.

3.1 Overview of the current state analysis process

Current state analysis describes the current situation of the product and the process in the case company and how the data used in the current state analysis was formulated. As described in *Timeline for Implementation* the current state analysis was made during week 40. The data used for the analysis was collected from the interviews, from my own knowledge and from the internal information. The interviews were organized through pre-planned interview template with open end so that the employees replied based on their own knowledge and own word. The template was drawn to handle the

issue overall, the weaknesses and strengths and the development ideas. The other data was collected through internal information which was mostly employee's own instructions and rest of the information was from common files.

The section will first handle the product itself to understand the operational environment, then focusing on the internal issues around the product and in the end the process itself and the weaknesses which should be developed and then the strengths which should be emphasized and utilized.

3.2 Operational environment

Case company offers very wide services in financial industry for different needs. One part of the service offering is for companies doing foreign trade. There are services for risk management including different payment methods and other part is different finance solutions. In this project the focus is only on one finance product.

In the trades the project is focusing on, a Finnish company is a seller meaning that they export the goods and the foreign counterparty is a buyer and an importer, who receives the goods. The case company will be part of the trade in the point when the counterparties of the trade wants to use a special payment method, or they want to attach a finance to the trade. The case company is buying transferable export receivables from its customers. One way to do it is to use a duly accepted Bill(s) of Exchange or Promissory Note(s) as a credit instrument. These finance instruments are important way to pay, provide credit and secure the credit especially in foreign trade. (Bills of Exchange, 1999).

For acceptance of the Drawee	Per Aval for the Account of the Drawee	<p>Payable in full without deduction of any kind</p> <p>Place of issue _____ Date of issue _____</p> <p>For value received _____</p> <p>Pay against this Sole Bill of Exchange on _____ Maturity date _____</p> <p>To the order of _____ the sum of _____</p> <p style="text-align: center; margin-left: 100px;">Payee Amount in figures</p> <p>_____</p> <p>Amount in words _____</p> <p>Effective payment to be made in _____ Currency _____</p> <p>Drawee _____ Name and address _____</p> <p>_____</p> <p>Payable in _____ Place of payment _____</p> <p>at _____ Bank _____ Drawer _____</p>
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Figure 5. Bill of Exchange

There is a long history among these instruments around the world. In Europe after the continuous growth of trades encouraged European countries to identify the rules of the notes. A unified law on Bill of Exchange and Promissory notes was created in Geneva Convention in 1930. Finland was one of the countries ratifying the law when it was created, and it is still in use. Several other countries ratified the law later and some of the countries are following the law and has implemented it in their own national law. There are some national differences, but the main functionalities are the same. When the laws and regulations of the instruments in international trade are globally the same, it makes the business environment easier and safer companies to operate. Misunderstandings are also easier to solve when same regulations are followed. (Bills of Exchange, 1999).

The benefits of this instrument are multidimensional. Most important is the possibility to offer credit to the buyer. The credit terms are often very competitive and especially in the situation when corporate is offering a credit to a buyer in country with high credit fees. The interest rate is always fixed and the buyer knows exactly the amount they are paying on the due date. The instrument is very simple to use compared to a loan agreement which could be the other possible instrument in foreign trade. Loan agreement is more complex and time consuming to create.

The finance solution improves the exporter cash flow and their position in the trade negotiations. The finance is suitable for different needs like long or short payment terms and for different amounts. The demand for this finance solution has been quite steady last years but case company could promote it more in case the process would be more automatic and would not require so much manual work. When the process would be better the case company could expect growth after marketing the product more to its customers.

Teams handling the finance uses a lot of time executing one deal in several systems. Another important side in today's financial industry is compliance. Case company has obligations for acting within all the orders and laws in the industry and that the information in their systems are in full control. It is also important to be able to report the information in the systems further. The systems used in processing the finance product are old and the systems do not synchronize together which means lot of manual work. Among manual work comes risk of faults as the information need to be transferred

manually. Third important thing is cost savings: maintaining one system is more cost-efficient than maintaining several systems. These systems used in the finance are not in use among the other trade products, so it is kept only because of this one product. Time ago the systems were in use in other trade products as well, but nowadays there has become new systems to replace the old ones. This new approach could focus all the different products to one system. This would also enable better use of work force and move the employees to work with different products when they all would have the knowledge of the system. One requirement is to have good work instructions in place.

3.3 Finance product “Forfaiting”

The finance product in this research is called Forfaiting and the instrument in Forfaiting is Bill(s) of Exchange or Promissory Note(s). Forfaiting is a way to finance receivables in foreign trade and it is developed for short- and long-term export financing. However, it is used more often for short term financing which means less than 12 months finance period. Forfaiting finance guarantees cash payment to the seller meaning the exporter while offering credit to the foreign buyer. The product is particularly suitable for regular trading relationships with foreign companies. By using finance, the exporter avoids granting credit to its customer with their own risk and also exporter mitigates their own balance sheet by selling the receivables to financial institution. There are several advantages to the exporter like:

- cash payment
- release of working capital
- improved balance-sheet structure
- 100% buyer risk cover
- no collaterals required
- lower exchange rate risk
- easy documentation

The buyer risk cover means that the financial institution covers the risk in case of non-payment. In forfaiting the credit for the buyer is always guaranteed by the buyers own bank and the exporters financial institution can take the foreign bank risk in their own books. Because of this, no other collaterals are required. There is also lower exchange risk, as the rate is agreed on the day of finance. Otherwise the exporter would need to

carry the rate risk till the day the buyer would pay the receivables. And the last advantage is the easy documentation, as mentioned Bill(s) of Exchange or Promissory Note(s).

Forfaiting is common for foreign trade and the instrument used as credit instrument is highly used internationally. To be able to arrange a finance for a trade case it is important to be sure that a trade has really happened. When customer is asking a finance for these cases the financial institution requires the exporter to send certain documents related to the trade through them. This is a payment method called collection which will be described better on the section Documentary payment methods. (Helppi and Paloheimo, 2005).

3.4 Current process

The current process is described below with the process map. Everything starts from the seller after they have agreed about the purchase with their client and the payment method they will use. The exporter makes an issuance of an export collection in an online system and sends the original documents of the purchase to buyer's bank abroad by courier and a copy through secured email to case company. The issuance is transferred through the online system to internal system called System A and processed by Team B. The copied documents are received by Team A by email. After team A have checked the received documents they contact and inform Team B about the accepted documents and leave the documents to wait the permission to finance. After receiving note about the checked documents Team B will send a SWIFT message to foreign bank.

SWIFT (Society for Worldwide Interbank Financial Telecommunication) message is a secured message service for communication between the banks and corporate customers but especially used between the banks all over the world. To be able to use the SWIFT message system the bank has to be connected to SWIFT platform. After joining the SWIFT, the participating counterparty is able to send authenticated messages around the world to the other participants in the platform. (SWIFT, 2018).

When the documents have been arrived in the foreign bank abroad, they inform their local customer which means the buyer in this case about the received documents. This is called an import collection for the buyer. The local customer has to accept the Bill of

Exchange by signing it and the foreign bank gives their collateral called Aval on the payment. This Aval will be added on the Bill of Exchange. Against signing the Bill of Exchange, the buyer gets the documents related to the goods and are able to pick up the goods from agreed delivery place. The foreign bank sends a note of signed Bill of Exchange and added Aval by SWIFT to case company. This message is received by Team B which forward the note of the Aval to Team A who is holding the copy of the documents. When the information of the guaranteed Bill of Exchange has arrived, the case company is able to finance the deal.

Team A process part of the finance in a second system called System B to create new customer in case they haven't provide finance to the same foreign counterparty before. After creating the customer in customer database, it is possible to create the finance in third system called System C.

The finance terms have been agreed with the exporter already before in a yearly agreement. The agreement will be checked from time to time and especially if some changes have happened in the foreign bank side who is giving the Aval to the Bill of Exchange and case company is accepting the foreign bank risk.

In this point the deal can be discounted in System C. Team is checking the agreed terms from the customer agreement and the collaterals of the finance are added in the customer database System B. After discounting, Team A will transfer the financed amount to the corporate customer account in forth system called System D. After this the deal will be closed in the System A and the maintaining of the finance will be in System C. The closing of the deal in System A is done by Team B which receives the note about it through email.

One month before the due date Team A will send a notice of payment collection through courier to the foreign bank. This notice is done manually. The amount will be transferred straight to case company on due date. Team B checks the arriving payments daily and they receive first the information of the arrived payment. They inform Team A of the payment and Team A is collecting the amount from the internal account to the deal in system C. After the payment has been transferred and the finance has been paid off, the deal will be closed in System C by Team A. This information goes automatically to System D and the collaterals will be closed.

The current finance process has several steps in different systems made by different teams and information is forwarded from team to another for actions. This makes the process very slow and time consuming. The finance itself is added on several systems which have been in use for long time. The reason behind this is that there has been wider use of the systems before and then the use of the systems has supported each other. The current systems has been also the only possible for this kind of financing.

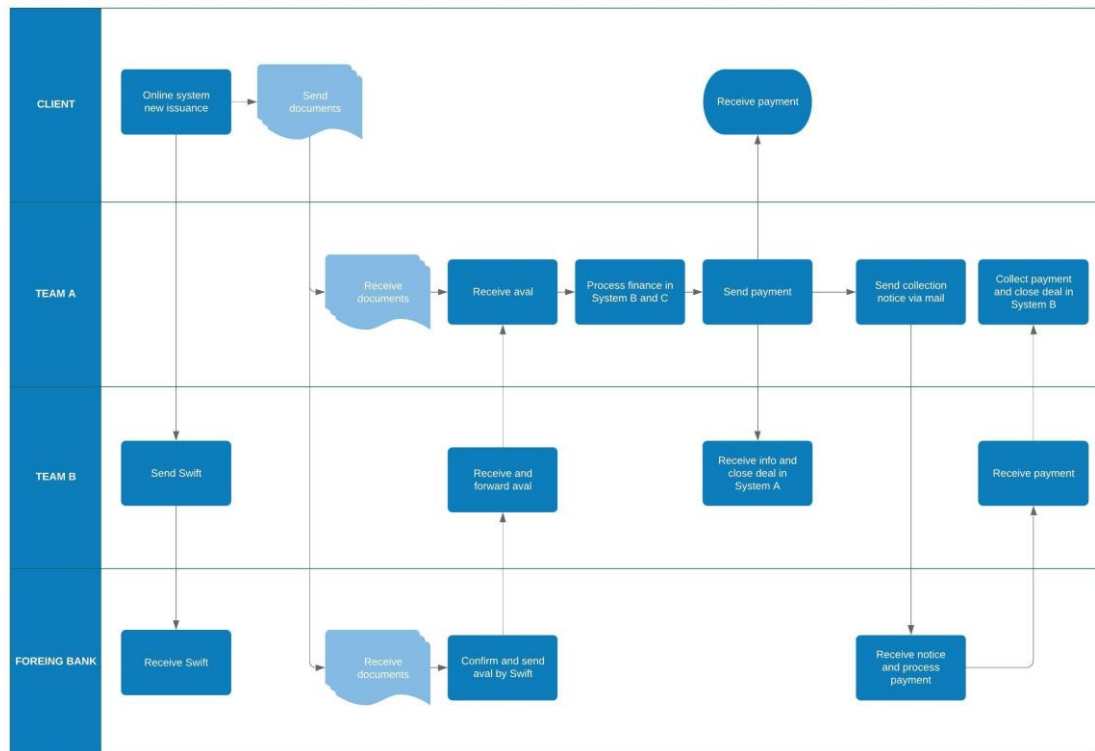


Figure 6. Current Process

3.5 Interview notes

As mentioned the data was gathered through semi-structured interviews of the employees working with the finance product and process. The questions were pre-planned with open end and enabled to focus on the most relevant issues. This data was analysed through qualitative research method as the team working with the product is small, only three people. I read literature related to qualitative research methods wrote by Patton, (2015) and Kvale, (1996). I got practical information how to create an interview template and to what should I pay attention.

The data I got from the interviews was equivalent to each other and the employees working with the finance product and process had same view of the current situation and the steps that should be improved. My own view of the situation was also same. The Strengths - Weakness analyse was gathered from the replies from the interviews and the main concerns was related to the current manual process, the several different systems in use and the difficulties to share the information from system to another. The current way of working is not even close to modern processes with high performance and which should be reachable by todays possibilities IT solutions are offering to us. The employees have had problems with some steps to remember and they thought there are several risks of oblivion involved. They all agreed that only one system should be in use. Some of the employees have experience of the newest system which is used for other products in the unit and they agreed that it would be suitable system to use for this product as well. When the finance product could be implemented in the newest system completely, many manual steps would be replaced with automatic steps and it would make the process easier and faster. The process could be also implemented by one team only after the change.

Other important point which came up was the lack of good work instructions and it seems that there are challenges every time when one or two employees are out of office. The employees are under huge pressure and they have huge work load all the time. In case the knowledge of the process could be spread to other employees in the unit and they could process the product also, it would help the current team. Knowledge sharing would be implemented fast in case the finance product would be handled in the same system than the rest of the products in the unit.

3.6 Summary of strengths and weaknesses in financial process

In this section I have analyzed the current situation with strengths - weaknesses analysis. This data was gathered from the interviews of the employees and from my own view.

3.6.1 Strengths

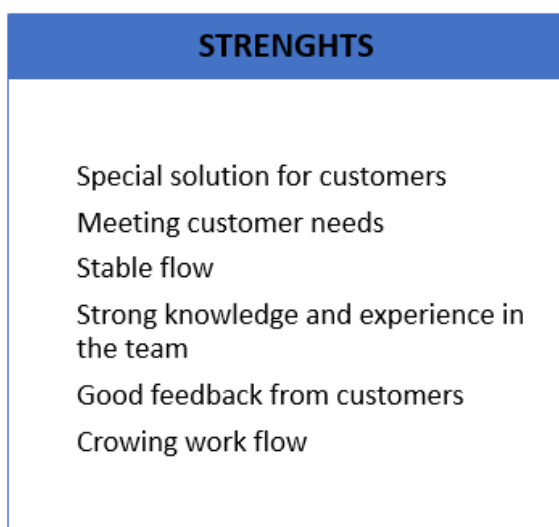


Figure 7. Strengths

The strengths in the finance process are mostly related to the product itself and not much for the process. The product meets the customer needs and is an important part of their possibility to offer longer payment terms for their own clients. From the customer point of view, meaning the exporter, the process seems simple and easy way to offer finance. As mentioned in the process map the process starts from the collection issuance in the online system done by the exporter. They send the documents related to the trade straight to buyer's bank abroad. This makes the process faster compared the situation that the documents would need to come through case company. In some export collections the documents need to come through the case company. The exporter sends a copy of the documents to case company only through secured email and this makes the process much faster from exporter point of view.

Another strength is the strong and deep knowledge level of the product and the policies in the current team. Even though the process has been processed in several systems the persons doing that have been familiar with the systems. The third strength would be the satisfied customers. Even though from case company's internal point of view the process seems slow and very manual, the customers are very satisfied to the service and the delivery times. For them the process looks well working and enough fast. For these reasons, the customers are pleased to use the finance and there is steady flow all the time. There could be potential for bigger flows when the internal process will be refined as the case company is not promoting the finance much right now.

3.6.2 Weaknesses

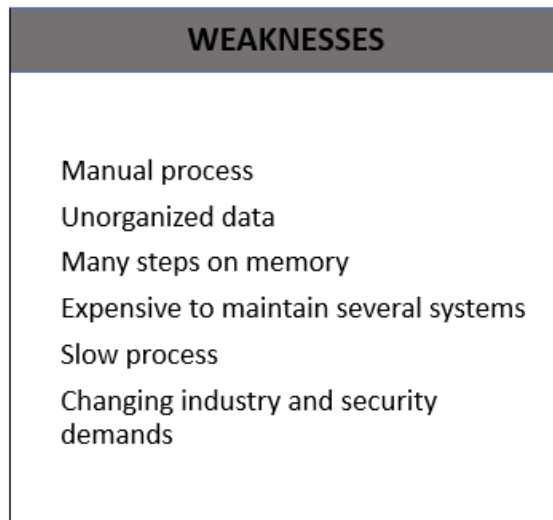


Figure 8. Weaknesses

The current process has unfortunately many weaknesses. The process is very manual which means it is also time consuming. The manual steps in process causes high risk for mistakes. The turnover of the employees working with the product has been low in recent years and it has caused that descent work instructions are not in place. The employees have had good knowledge of the process and the product. However, there is always the possibility of employees changing jobs, retiring or having longer absences. The management is aware of the risk it causes to the product knowledge and to its continuity in the future. The team agrees that it is not constant way to continue working among the product only with this small team in the future and it would be important to spread the knowledge for wider workforce. This leads to the challenge that introduction of new job area will be difficult without good work instructions.

Another weakness is related to available data of the finances. As mentioned, the finance is processed in several systems and available reports and information of the finances are spread to several systems. The information do not flow between the systems and it is not possible to get only one report including all the information of the finances. This makes reporting for internal as well as for external purposes manual and time consuming. There is also risk of mistakes involved when data from several systems need to be combined.

Other considered issue is the expenses of the systems. It is expensive to maintain several systems instead of one and especially only for one product need. These systems have been used in other units in the case company before, but nowadays they have replacing systems in place. Because of the slight use of the old system the case company has decided to close the system in close future after the finance product has been implemented to new system. The changing environment in financial industry and the strict requirements of common rules and security brings own challenges of system maintaining. There are several information security challenges and the case company need to ensure safe and secured system environment for the information of the cases and the customers. This requirement is easier to achieve with one system maintaining instead of several systems.

4 Best Practices

This section will handle the best practices in risk management and handling receivables in foreign trade. Another important part is the existing knowledge of process re-engineering. The first part will handle the risk management and handling the receivables in foreign trade and the last part will handle the process re-engineering.

4.1 Operating environment in foreign trade

4.1.1 Risk management in foreign trade

Companies doing international trade faces many risks which they need to consider in their daily operations. This part will focus on the risks in foreign trade, payment methods and financing. Other possible risks are not handled.

In foreign trade the risk means the possibility for financial lost. There are two main parts in it, the possible size of the risk and the probability of the actualization of the risk. When managing the risk there are four different areas the company need to take under consideration: recognize and analyze the risk, actions to cover from the risk, risk management and follow, control and react to the risk. (Helppi and Paloheimo, 2005).

4.1.2 Recognize and analyse the risk

In international trade the company need to think the different possible risks especially related to the counterparty and the geographical area they are operating with their counterparties. Other considerable risks are related to production time, transport, political issues, juridical issues, credit, delivery, currency and the goods. These risks need to be recognized in different units, especially in finance but also in sales and purchase units. The last two are mostly negotiating the purchase orders and sales agreements so the risks need to be clear before doing for example a sales or purchase offer. (Helppi and Paloheimo, 2005).

Some of the risks can be shared with other counterparties and companies can either take the risks in their own books or outsource the risks to the counterparties. There are plenty of different insurances offered by commercial or state owned insurance companies for these purposes. Some of the risks can be covered with different payment methods offered by the banks. Some risks might be acceptable to take without any cover and then the company should analyze the possible lost in case the risk actualizes. When company want to outsource some of the risks, they should consider the costs of the covers and include these expenses to the amount of the sales if possible. (Helppi and Paloheimo, 2005).

4.1.3 Payment methods and receivable management

Payments in foreign trade are handled by the banks. Local banks have co-operation agreements done with other banks in different countries and these are called as correspondence banks. On the agreements the banks agree of the methods to secure the payments and communication between them. They agree also from the costs of the payments and other payment related actions will be executed. As mentioned earlier, the banks use secured environment for communication, called SWIFT. When banks do co-operation agreement, they change SWIFT keys which means they can be sure the messages are coming from the co-operation bank. Banks also send a list and a sample of authorized persons signatures who can sign behalf of the bank. This way the co-operation is secured. (Pehkonen, 2000).

One important part to consider when doing new purchase or sales agreement with counterparty is to agree the payment method. When choosing the right payment meth-

od, the company can be covered from the risks related to foreign trade. To choose the right payment method can also be a reason, the seller wins the deal because the payment methods protect both parties in the trade. The most used payment methods in foreign trade are divided to two categories: clean payments and documentary payments. (Helppi and Paloheimo, 2005).

4.1.3.1 Clean payments

Clean payment method means payment order in foreign trade. It means that the bank only transfers the open account payment but do not cover any counterparty or political risk. This payment method should be used only in deals with already known counterparties and in countries where political risks are in low level. The buyer pays the contract price based on the invoice. The reason companies use this payment method is because it is inexpensive and very flexible. (Helppi and Paloheimo, 2005).

4.1.3.2 Documentary payments

Documentary payments means that next to the payment, the bank sends documents related to the trade to its correspondence bank abroad. It depends of the payment method what does these documents include and how the documents are handled. It can include only documents entitling to the goods or then documents like invoice, insurance or other documents related to the trade. Documentary payments refers to two different forms of payment methods; Collection and Documentary Credit. (Helppi and Paloheimo, 2005).

4.1.3.2.1 Collection

On collection payment method the exporter ships the goods and sends the documentation which includes normally invoice and transport documents (can include other documents as well), to their bank, which will forward the documents to the buyer's bank abroad. The buyer will get access to the documents after payment or an acceptance to pay on a future payment date. In case the exporter doesn't want to wait the payment as long as they have agreed with the buyer, the exporter is able to discount the receivables with their own bank. This need to be decided already beforehand and be instructed on the collection letter sent to buyer's bank. On the collection letter is instructed the

foreign bank to release the documents against acceptance of a Bill of Exchange. Next to the documents, the exporter sends a Bill of Exchange which the buyer signs and pay on the due date to the party the Bill of Exchange has been addressed. In case the case company is financing the trade, the B/E has been addressed to the case company and in case the exporter is willing to give a longer payment term to the buyer by itself it is of course addressed to the seller itself. (Helppi and Paloheimo, 2005).

This payment term includes risks and it is normally recommended with counterparties already well-known and if they have paid as agreed. In this payment method exporter send the goods in their own risk to abroad and not knowing if the buyer will ever pay or pick the goods. In case the buyer would not do that, the exporter would need to resent the goods back to them or sell them to another buyer. This causes extra costs and especially if the goods are tailored for the buyer. (Helppi and Paloheimo, 2005).

Collection payment method is safer than open account sale but not as safe as the most used payment method in foreign trade called Documentary Credit. (Helppi and Paloheimo, 2005).

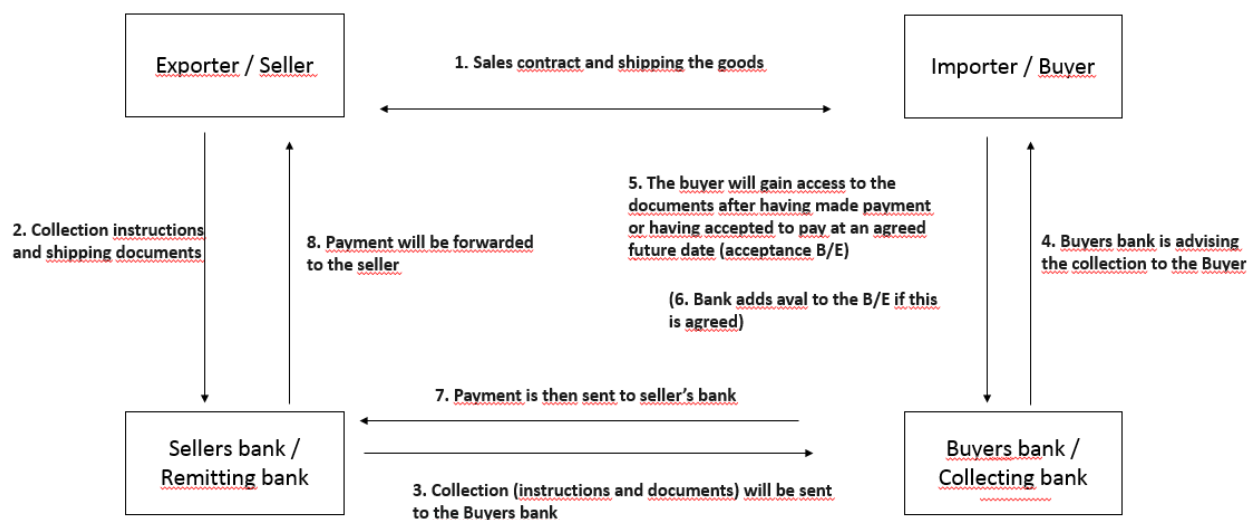


Figure 9. Collection procession (Helppi and Paloheimo, 2005).

4.1.3.2.2 Documentary Credit

Documentary Credit (D/C) payment method is very safe payment method to use in foreign trade. The buyers bank commits in the payment in case the agreed terms are fulfilled by the exporter. This means the counterparty risk is moved to the issuing bank which is always the buyers bank. The exporter can be cover from the issuing bank risk by confirming the DC which means that their own local bank will cover the risk of the foreign bank which issue the DC. Then the exporter gets the payment as soon as the agreed terms are fulfilled from their own bank. The DC can also be financed when the exporter gets the payment even earlier, especially if longer payment terms are agreed with the buyer. The terms are always agreed between the buyer and the seller (exporter). Before agreeing the final terms in the DC the banks are checking the terms through to make sure the terms are possible to execute by their own customer. This is mitigating the risk towards both parties and for these reasons it is also more expensive and complex to use as collection for example. Below is the flow chart of how the DC works. (Helppi and Paloheimo, 2005).

First exporter and the buyer agree on the terms of the contract and the payment method which is DC in this example. DC is always applied by the buyer at his bank, which issues the DC and sends it to exporters bank. In this point the exporters bank inform their client of the arrived DC and this is called advice the DC. After receiving the DC advice, the exporter ship the goods and present the documents agreed in the DC to their own local bank. Their bank checks that the documents are as agreed in the DC terms and sends documents to the issuing bank by courier. The issuing bank check that the documents are as agreed in the DC terms and remits payment to exporters bank. Buyer gets the documents after they have paid the DC amount. (Helppi and Paloheimo, 2005).

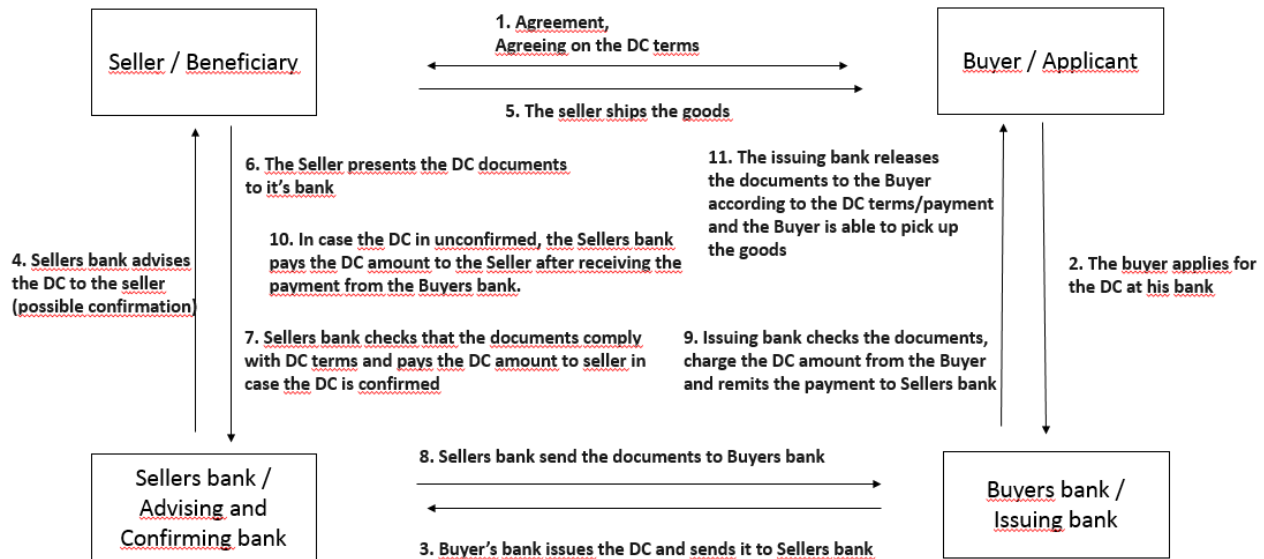


Figure 10. Documentary Credit procession (Helppi and Paloheimo, 2005).

4.2 Process reviewing

4.2.1 Process definition

The process can be described as a logical entity with a beginning and an end. The difference between a nonrecurring and a unique project is the continuity and repetition of the process. (Kvist et al.1995) Process can be defined as a series of interrelated actions or steps taken in logical order to achieve a particular result. Process is an operating sequence where each component accomplishes the process. It starts from the customer need and ends in filling of the need. Examples of business processes are for example developing new product, managing the customer basis, drafting an offer, operative order or delivery chain, marketing plan, managing suppliers, managing insurance compensation or managing information systems. (Hannus, 1997).

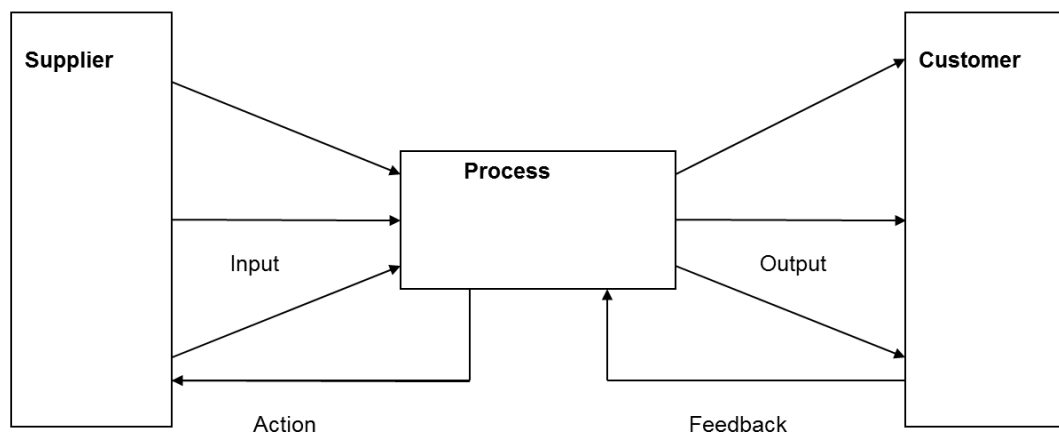


Figure 11: Process is a series of actions (Laamanen, 2005)

The essential elements of business processes are:

- The process always has a client who gets the end result defined for it, and the client can be internal or external to the company.
- Processes go beyond organizational boundaries and are generally independent of organizational structures.
- Process performance should always be evaluated from the customer (internal or external) point of view. (Hannus, 1997).

4.2.2 The principles of process management

Process management as itself has a long tradition, but when looking at the business horizontally as a core value for the customer, it was still a new perspective in the early 1990s. Important inspirations were the articles from Hammer as well as articles from Davenport and Short in 1990, which all introduced the principles of redesign based on the innovative use of information technology. (Hannus, 1997).

The Process Management simple but effective idea is to look the operations on cross-wise and identify the processes that satisfy customer needs. The process describes work processes of different scales that bind the flows between organizational units. Clarifying and developing processes and leading them provides a customer-centered overall view that cuts through the traditional organizational map. (Karlöf, 1999).

The basic idea is to get started with the customer and his needs. Consider what kind of products and services (output) the need can be satisfied. Design a process (operations and resources) which provides the desired products and services. Find out what inputs (information and material) are needed to complete the process and where to obtain it (suppliers). It is also important to remember the importance of feedback. Feedback can cause remedial actions or improvements in the process. (Laamanen, 2005).

In process management the control and the organization are primarily based on processes and the starting point is to recognize the company's core processes and how to measure the performance. Typical core processes are developing and marketing a new product or service, managing a customer base and an operative order or delivery chain. These core processes reach across different units of the company and extend beyond your own business, including customers, resellers, subcontractors and other stakeholder activities. The most important in process management is operational control based on customer needs and the objectives of different functions are harmonized. The key issues are process-driven performance targets and metrics as well as open communication and close collaboration. The owner of an operational core process looks at the whole chain as a single entity. (Hannus, 1997).

The targets of process management do not differ from the general targets of management, which are for example:

- Good financial performance
- Customer satisfaction
- High productivity
- Satisfaction of your staff. (Laamanen and Tinnilä, 1996).

4.2.3 Types of business processes

Core processes are processes that serve the external customer. The aim of core processes is to refine the company's abilities and know-how into products that add value to the customers. Typical core processes are product development, production and customer service.

Support processes are company's internal processes. They support the operation of the organization and creates the conditions for the success of the core processes. Typical support processes are related to financial, information and human resource management. (Hannus, 1997).

4.2.4 Process management and control

The responsibility for the process functionality lies with management and all employees who are part of the process flow but even though the main responsibility for the whole process functionality lies normally on one employee. This person is normally called as a process owner or responsible person of the process. The same applies to all types of processes. Process owner should have a process team assisting and the employees should know the process from the beginning till the end. This means the team members can be from different units and from different levels of an organization. (Kvist et al.,1995).

4.2.5 Process development and re-engineering

Today organizations are required to develop processes continuously and to use efficient way processes and operational reform programs. This is due to radical and fast changing business environment. It is very important to be flexible and to be able to do these developments and especially focus on the quality in the changes. Some organizations have defined rapid and efficient change management as one of their most important competitive factors in their strategy. (Nyman and Silen, 1995). Organizations need to manage and adapt the process change faster than their operational environment changes. Even though there are coming new ideas how to manage the development changes, organizations should react critical way to those and adapt only the ideas which suits to them best from managerial policy and logic point of view. (Martola and Santala, 1997).

Process development brings new methods and tools to improve customer focus. By redesigning the processes can bring significant improvements in efficiency and customer satisfaction that often organizations cannot afford not to pay attention to. (Kvist et al.,1995).

Increasing the performance of an organization must be done differently in different situations and a world-class company rarely faces a situation where it should improve its performance rapidly and quickly. For this need continuous improvement and sustainable development works better. In case of competition or an internal crises, an organization needs a faster way to improve its performance. Then more radical process re-engineering will come into question. Many top companies apply both working ways at same time in different business areas. Nyman and Laine (1995) wrote that it is worth investing more in the processes development because the results of the organization are achievements of the processes. Also tighten competition in almost all business sectors requires more process development and renewal from the organization. (Laine and Tiirikainen, 1995).

Process re-engineering means that the core processes or the supporting processes are re-engineered. If the re-engineering is focused on core process it normally means very radical change in the process. Re-engineering of a process usually is directed to processes which are comprehensive processes and add customer value. The development of core processes is always based on the organization's vision and the resulting strategy. (Kiiskinen, Linkoaho and Santala, 2002).

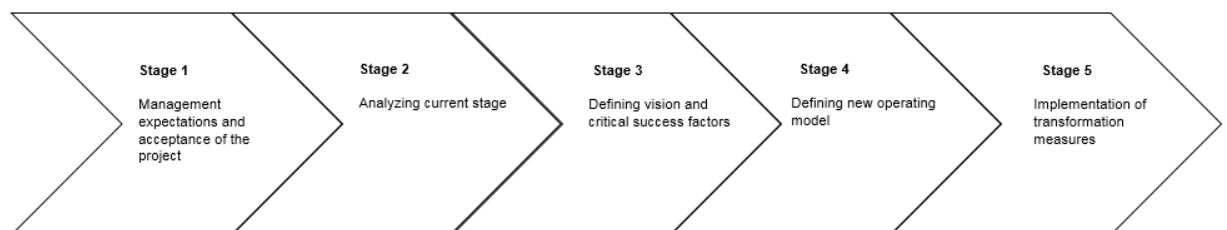


Figure 12. Stages of process re-engineering. (Kiiskinen, Linkoaho and Santala, 2002).

Different stages of process re-engineering have been described. There is no exact line between continuing process development and process re-engineering, but some differences can be found. Continuing development work is normally done next to daily work but process re-engineering should be full-time work. In continuing process development, the organization stays as it is, but a process re-engineering can cause organization changes. Continuing process development is based on analysis of the current situation and in process re-engineering you try to create something new and get rid of from the old process. You can say that these two ways are complementary methods to use

and not exclusive methods. Re-engineered process can also be developed with small continuous improvements all the time. (Kvist et al.,1995).

Process re-engineering is a one-time operation where one or more critical processes in an organization are radically redesigned. With re-engineering, it is possible to achieve bigger one-time improvements than continuous improvement. Referring to studies of certain re-engineering projects, the organization has achieved average 48 percent costs savings after new re-engineered process and the average lead time is reduced with 80 percent. The average cost reduction method for continuous process improvement has been 14 percent. (Kvist et al.,1995).

Process thinking means redesigning the work so that the tasks are in logical order to execute and their number is minimized. Each step should bring value to the customer and available technology should be utilized enabling completely new ways of working. Work should be done where it is the most reasonable and it is done by those to whom it is logically best suited. The goal is to achieve improvements in efficiency, lead time, quality and customer satisfaction through process renewal. In many development projects, the organization, job descriptions, corporate culture, information systems and infrastructure for organizational management and development are being reformed in addition to processes. (Nyman and Silen, 1995).

Process re-engineering must always be based on the needs and expectations of the external customer. The main idea is to provide the customer better value and meet his needs and expectations effectively. Any work that does not add value should be eliminated. The customer's point of view must be the main focus even though the most important goal from the organization point of view in the project would be achieving cost savings. (Kvist et al.,1995).

4.2.6 Analysing present state and defining the process

Process re-engineering starts from analysing the present state. No re-engineering can be done before knowing current situation and mapping it. The main points of the mapping phase are the organization of process work, the preparation of process descriptions and diagrams, and the evaluation of process performance. (Lecklin, 2002).

What comes to defining the process, the general principle is that processes should begin with the customer and end with the customer, which emphasizes customer orientation. Another principle of delimitation is that the process begins from design and ends with evaluation, which aims to promote the principle of continuous development. (Laamanen, 2003).

Defining a process facilitates understanding of the process and demonstrates development targets. In case it feels difficult to describe or define the current process, indicates it the complexity of the actual process. There are certain benefits when defining the process:

- responsibilities between functions are clarified
- internal assignments are specified
- provides a basis for internal supplier-customer discussions
- eliminating unnecessary functions
- the introduction of new employees become easier
- observing and solving problems become easier. (Kvist et al.,1995).

5 Building a Proposal for the Case Company

5.1 Description of the Proposal Building Process

After analyzing the result of the interviews and the existing knowledge there came several important issues to pay attention. One important point is to reduce the process steps to minimum and as Nyman and Silen (1995) wrote the work should be done where it is the most reasonable and the work should be done by those whom it is logically best suited. This leads to the question of the responsibilities of different teams and the need for multiple systems in future. Same issues and thoughts came from the interviews and the teams felt it very time consuming to use several systems in the current process.

Part of the proposal will be to give up these several systems in processing the finance product in future. The whole finance process can be done in one system only and the system would be System A where part of the process is processed already. System A is also used in other finance products in the unit and the system is ready to use for this

finance product as well. Transferring the process to System A will have significant benefits like time saving. The information of the finance will be added only once in future and not several times like in current process. This also reduce the risk of mistakes. The information of the finance is added by the exporter as they do the export collection assignment in the online system. The information flows from online system to internal system, System A. This ensure the information is same for both parties and the same information is updated on same time. The responsibilities of the different teams will be clarified, and all unnecessary steps should be eliminated. These are all important issues to consider in process re-engineering and what is written in the consisting knowledge.

Another important aspect is reporting. Reporting has been challenging because of old systems which does not combine with the online system the customer is using. All reporting has been done manually to customer and there are same challenges as previous issues, very time consuming and the possible for mistakes. After the finance process would be done in System A, the exporter could take the reports from the online system. The exporter can see all their transactions in the online system and no extra reports need to be sent anymore by the team. This will have huge impact to the customer satisfaction as they appreciate the possibility to have the information from one place and take the needed reports with slight effort. Relating to reporting this new way to do finance only in System A, will also help internal reporting in case company. Till today the internal reporting has been very time consuming as the information hasn't come automatically and has required manual work. After implementation the finance to System A reporting will be automatic and reports can be taken straight from one system only. This decreases the possibility of mistakes which is always a risk in tasks with lot of manual work.

As mentioned System A has the finance tool in place because of another finance product which has been processed in the system some years already and the same function can be used for this product. It means no new functions are needed to update in the system and the implementation can be done smoothly with low investment. The system is designed for foreign trade payments and finance, so it is suitable for this finance product as well. All the other trade finance products are processed in the System A already, so this will help the exporter to see the total view of their trade activities from the online tool access. The exporter can also see the real time situation of the finance. Before they have seen these deals as "closed" right after the finance have

been done and they haven't been able to follow the deals in the online system. This was because the finance was processed and maintained in another system. Exporters are already familiar with the online system, so for them it is convenient to have the finance product there too.

One important issue in this project was also the compliance. Nowadays it is important that systems are developed all the time to meet the strict requirements of the common rules and security in the business. The compliance requirements are easier to handle with the one system only and the case company can focus more on developing System A in future. This will have huge impact on cost savings and will also enable to use work force more efficient in the unit.

Another side on compliance is the communication between exporter and the case company. The user interface of online system is secured so it is safe way to handle all the information and documents between the exporter and the case company. When the customer issue a new export collection in the online system, they are able to attach documents related to the trade in the issuance and all the information transfers straight to System A without manual work. Case company can give up using the secured email in these transactions. Using only one channel for communication is saving time. The process will become much smoother and it will save time from the employees when the information goes straight to system and there is no need to fill it again in several other systems. The process with foreign financial institutions will stay as it is after that process is globally used between the banks and that is secured and fast way to communicate with the financial institutions in the other countries.

Important point in the new process is also better use of work force in future. As said, the team handling the finance product today are the only ones who have been able to use the several old systems and the knowledge hasn't been spread to several employees. After the finance will be processed only in System A will it be easy to other employees in the unit to process the finance as well as they have the system knowledge in place. There will be new work instructions done before implementation and with the new work instructions any employee with the system knowledge is able to process the finance. This will reduce the risk of knowledge in the unit and it is easier to transfer employees to work where the most critical need is. The work instructions will be done separate and those will not be attached to this proposal.

5.2 The Proposal Draft

The new refined process of the finance is described in this section and the new steps are mapped.

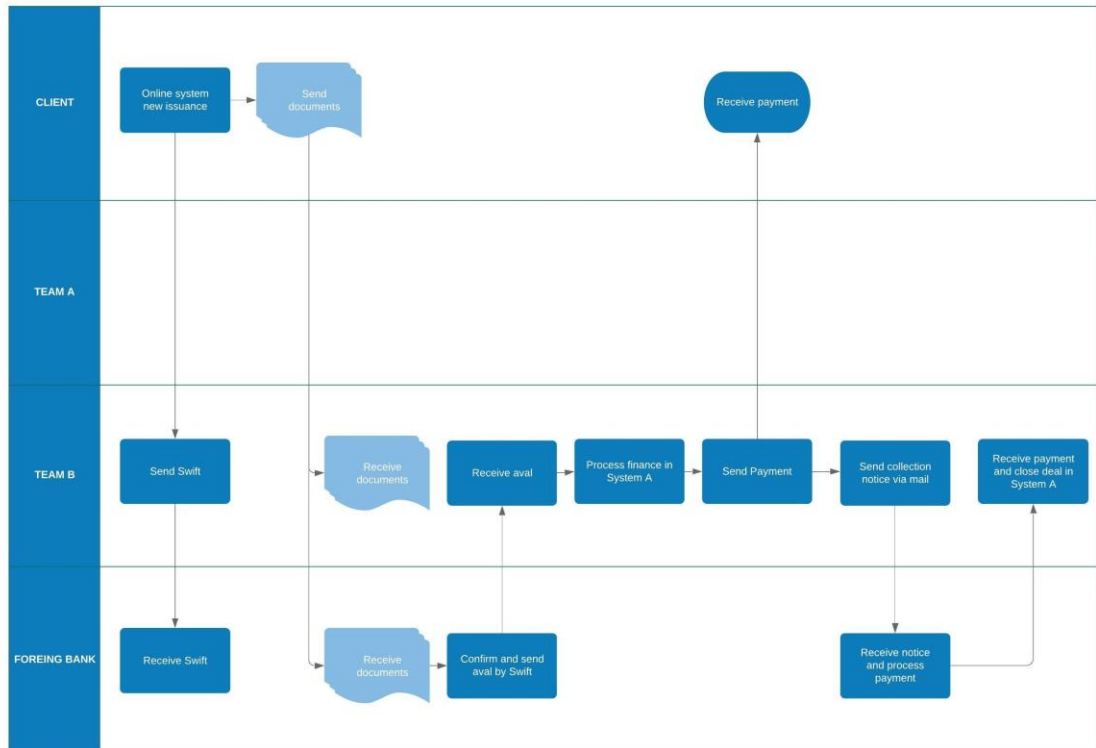


Figure 13. Refined process

The refined process will have two visible impacts to the exporter. First one comes next to the first step when the exporter is doing new issuance of an export collection. In the online system the customer will attach documents related to the finance case to attachments before sending the issuance to case company. The whole issuance with attachments will flow from the online system to the internal System A. Next to the issuance in the online system, the exporter sends the physical documents to foreign bank.

Team B receives the information of new export collection issuance to System A and after checking the finance information and the documents they send a SWIFT to foreign bank of the coming collection documents and an Aval request. The foreign bank will wait the documents to arrive and after checking the documents and accepting the Aval request the foreign bank sends the Aval confirmation by SWIFT to case company.

Team B will receive the Aval confirmation and they will process the finance in the System A under the same export collection deal issued by the exporter in the first step. The payment and the collaterals are transferred straight from System A, so no manual steps need to be done. Collaterals are maintained in customer database, System B. Payment is the second visible impact to the exporter after the refined process. Customer should receive the payment faster in future as the information is not transferred from unit to another which always take own time. The exporter receives a note to online system right after the payment has been executed in System A. This goes automatically between the systems, so it causes no extra work for the team.

System A informs one months before the due date of upcoming payment and automatically prints a letter which will be send by courier to foreign bank abroad. From the system goes also an automatic reminder in SWIFT format of the upcoming payment to foreign bank. Foreign financial institution receives the payment collection notice and they pay the amount on due date. After case company receives the payment, Team B close the deal in the System A and the information of received payment and the closed deal flows to online system.

As described in the refined process map, the process can be executed by one team only in future and Team A will have more time to execute other work tasks in future. Case company want to focus on the customer more in future as said in their strategy and this new process will release time from Team A to focus on the customer service and contacts more than to processing. This way of sharing the responsibilities between the teams will have positive effect on the customer satisfaction.

6 Validation of the Proposal

This section discusses the validation of the proposed new process. The feedback received from the case company on the proposal is presented and the final outcome of the research is presented.

6.1 Findings of Data Collection

To validate the proposal, it is presented to the case company key stakeholders to get suggestions on final amendments before the process is presented for implementation. The key stakeholders are the persons working with the product and the manager of the unit. We had discussion all together and the proposal was introduced. During this research there has been several discussions of the new process and the ideas have been discussed together. In this stage the proposal was already known by all key stakeholders and it was agreed with common consent. Only issue which came was that team A could do the process next to Team B to make sure the knowledge will stay in both units and the units are able to substitute each other in case needed. This will also support the thinking of spreading the knowledge to several employees.

6.2 Final Proposal

Final proposal is the same as the draft version added with the possibility that both teams (team A and team B) are able to process the finance in System A. Below is the process described for this option.

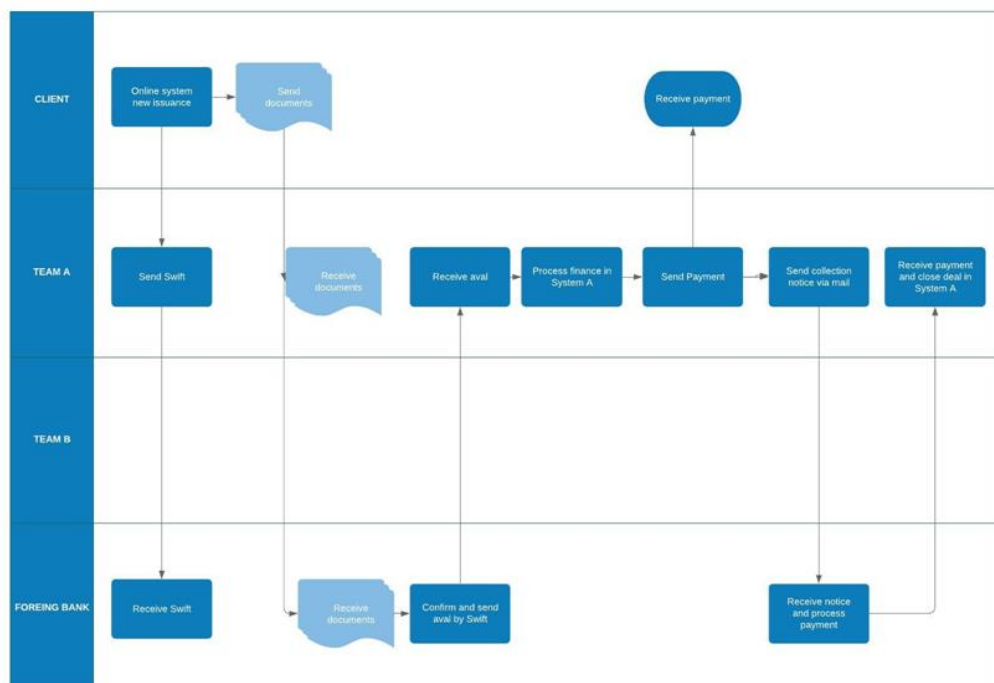


Figure 14. Refined process, option 2

6.3 Recommended Next Steps

The implementation of the new process will be done on year 2019 after the internal changes in the unit are ready. Before implementation there will be a test group who is testing the finance in System A. The test group will be gathered from employees in IT support and from the team working with the product. Testing is normal procedure in case company before implementing any product to new systems. After the test rounds are passed, the finance process is ready to be transferred to System A. In this point the new work instructions need to be in place. Those will be presented separately to case company.

Next to implementation there should be close discussions with the teams and how the new process feels in action. In case any problems or new views will be revealed, those will be discussed and check through before continuing the process.

7 Conclusions

This section discusses the results of the thesis. The effects of the research are described.

7.1 Summary

The objective of this research was to refine simplified process to a finance product. The process needed to be restructured by plain lines and the process was supposed to be executed by less workforce to release employees to other work tasks. Important part was also to create internal work instructions outside this thesis. The current state investigation was done by interviews with key stakeholders, examining internal documents and based on my own knowledge of the issue. Existing knowledge was studied based on the business and the product and about the process re-engineering. The proposal was created with the case company employees and manager based on the needs and requirements of the future process. Finally, the proposal was validated with the key

stakeholders and the new process was ready to be implemented as soon as the case company will be ready for it.

7.2 Practical Implications

As the new process couldn't be implemented yet, the real practical implications were not able to evaluate yet. The implications are only based on speculations in this point. I assume the new process will bring much more time for the employees to focus on other tasks in the unit. It will increase job satisfaction as the process will be clear and the responsibilities are clarified better between the teams. This is also supported by new working instructions. It will also bring customer satisfaction by combining all the trade product in same platform and the customer is able to follow their trade actions from one place only.

7.3 Evaluation of the Thesis

The topic of the thesis was discussed in the unit already several years and it was clear that the process needed to be re-engineered in close future. The biggest challenges in the thesis project were caused by the limited amount of time. This was done next to several other projects and sharing the time and full concentration was challenging. Middle of the project came also other issues in the case company which postponed the implementation of the re-engineered process. Even though the project was important to all employees working with the product, it was still difficult to find time to discuss about the development issues next to daily work.

After all, I am pleased with the outcome of the thesis. I assume the same result would have been done even without reading the best practices but on the other hand it did brought some benefits. Understanding to keep the external customer in main focus all the time and not focusing on the internal issues only, was an important point of view. Creating a survey would have been difficult and non-structured without the guidelines found from literature. Because the product and process were very familiar to me, it was sometimes difficult to see the situation from external aspect and not to bring my own view too strongly out. All in all, the thesis serves the case company and it can be used to implement the proposed process.

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Appendix 1.

Research Interview Template (Discussion)

Topic: 'Refining internal process for Finance product'

Information about the informant (Interview 1)

Details	
Interviewer	
Name of the informant	
Position in the case company	
Date of the interview	
Document	Field notes

Field notes (Interview 1)

	Topics of the interview	QUESTIONS	FIELD NOTES
1.	Starting point: The interviewee describes the research problem	<ol style="list-style-type: none"> 1. How many finance cases do you handle per day? 2. How much time does one finance case take to process? 3. How many systems do you use and please tell which ones? 	

2.	Identify current process strengths/Weaknesses	<ol style="list-style-type: none"> 1. Which are the strengths 2. Which are the weaknesses 	
3.	Key concerns	<ol style="list-style-type: none"> 1. What are your biggest concerns if the current process will not be changed? 2. Have you had any specific bad experiences of the current process? 	
4.	Analysis	<ol style="list-style-type: none"> 1. How would you improve the process? 2. How do you see use of IMEX with this product? 	
5.	Development needs	<ol style="list-style-type: none"> 1. Are there some steps you would remove? 2. Are there some steps you would like to add? 3. What is the most critical thing to fix? 	
6.	Additional information	<ol style="list-style-type: none"> 1. What else would you like to say? 2. Did I forgot to ask something? 	