The Art of Global Financing: Outsourcing

Wold Zemedkun
School of Business
Norfolk State University
700 Park Avenue
Norfolk VA 23504
wzemekun@nfsu.edu

Global Challenges:

1) The complexity of globalization in business behavior, markets, policies and procedures, and legalities. Such complexities are observed in product developments, product pricing, product marketing. The service cultures are even more complex intertwine with beliefs, cultures, regional restrictions and markets.
2) The new world order under globalization brought about real changes and revolutionized businesses with its new growth, new technology, new global cultures, new skills, new ability to outreach and changes in other factors that made it difficult for thousands of companies to afford and keep up with those changes.
3) Globalization clearly necessitated creative approach to survival in an international business. Ones of these successful approaches, the more recent escape of globalization, has been **'outsourcing'**.

Review of Current Global Activities:

A review of a more recent global business activities display outsourcing as the one part of international business that is growing uncontrollably defying every effort of local resistances, regulations, and barriers. In this paper we consider only the five top outsourcing need areas for financing of global trade and funds transfers. (1) Customer relations management area. This part of the corporate global business is focused on language, culture and customs with special emphasis on legalities and beliefs. For product development, marketing or service provisions, a great pull of educated and skilled labor is considered as one of the main attractions to global business outsourcing. (2) Outsourcing of information and communication technology management area. Global businesses, specially multinational corporations, recognize that technology is not uniform across the globe and skill which is the basis for technology is based on different world systems. Information dissemination relies heavily on information network and information infrastructures (3) Outsourcing of human resource management skills, cultures, educated workforce, legal and the market structures. These factors promote and limit the success of global businesses, specially the *outsourcing efforts*. These are pre-requisite of placing outsourcing businesses in an economy or culture outside of the home country. (4) Outsourcing of financial management responsibilities. This is an area of high business risk. Outsourcing is done in both financing and investing activities. In the area of financing, global businesses need product development, packaging, and marketing of those financial products successfully. In the investment area, global businesses may outsource market study, project evaluations, competitive treats, and business opportunities analysis. Outsourcing is also made in this area to find out legalities, and investment cultures that may encourage or discourage such businesses. Controlled outsourcing in all of these efforts can cut costs and provide great shareholder returns. And (5) Outsourcing of transportation processing, paper works, office management and several routine operations of normal business like phone operations, teleconferencing, and the like.

In this paper, we look at the banking industry as one so affected by globalization, though not recognized as needing outsourcing. However, no trade nor cross boarder transactions take place without proper credits and/or payments. Banks are one of the first affected. Direct bank involvement, in this era of advance communications may seem our of date; but, the truth is that it is still strong in specially in Asia, Latin America and Eastern European nations as well as Middle Eastern countries. For example, the letter of credit system is still highly popular for the reason that it is direct and simple. Therefore, banks have been the major financial intermediaries for all cross board transfers and financing of goods and services. Banks normally provided the credits, to begin with, and provided the risk management (risk aversion) methods. The role of banks and financial intermediaries in international business is extensive in nature. Banks run the settlement processes in international transactions. Most banks process most settlements for fees while some other money center banks may buyout and assume the risk of the transfer for a profit motive. Moreover, most banks and or intermediaries that are involved in cross board trade transactions also routinely provide accounting services, often called ‘trade document service’. These banks provide document keeping and reporting service and the maintenance of it all.

Multinational corporations (MNC) are the main participants in the cross board transactions of good and services and such corporations are vitally important clients to the global banking systems. For these banks, multinationals are their valued corporate clients. Under the present globalization regime, as global business is a growing part of banking, bank portfolios can’t survive without significant participation in the MNC’s regular business. It is a necessary part of global bank businesses. Most global bank portfolios show increasing revenues from international businesses

Moreover, advances in information technology and other technology revolutions are redefining both banking and the role of banking in global business and the global trade relationship. The era of the net and the dot.com has taken this revolution even further. This phenomena has produced the condition of low cost international transactions and for the efficiency in the processing of transactions. It gets even better when buyers and sellers that are familiar with the market, now, take this opportunities in the net and the dot.com to regularly search for even lower cost of transaction in light of any reasonable risk they may decide to assume. This approach to financing international business transactions tends to formulate a non-traditional model for trade financing. The large global money centers possess the capabilities of following up the changes and adjust quickly. However, there are equally many banks and intermediary institutions that would find the cost of the new technologies prohibitive to stay in the business. They do have buying or building options available to them. They also could use outsourcing options.

Studies show that trade finance vendor soft wares are owned by banks. They find it viable investing in it themselves. The up front cost for such soft ware is negligible. But they are out of date and they needed to be changed. In the case of 'vendor maintenance soft ware', A small part of this soft ware is built in home (less than 29%) and the cost is built into the pricing of their services. A good size outsourcing is taking place in this area as well. Third party soft ware licensing and its maintenance is normally borne by the bank and the cost is normally built into the service pricing. For those banks that are outsourcing such services, many banks do outsource this services, the outsourcing cost is normally built into the transaction prices. Here, one needs to notice that outsourcing has become just another normal business searching for low cost operations, specially. In the case of hardware maintenance services, banks outsource the business. The cost, again, is built into their transaction pricing.

In the era of rapid expansion of globalization in recent years, especially, a great more multinationals are searching for financials that have a solid capabilities for electronic trade services, management services, services in account receivables, and services in simple documentation and reporting needs of corporations in their global efforts. Money center banks around the world are yet to satisfy these varied needs around the global trade activities. Several studies have been carried out as to how these needs can best be met. Some possible solutions recommended by the results of those studies are possible International Clearing House. The main issues around this recommendation are (1) that it requires a common decision on a specific technology acceptable to all trading parties around the world, (2) that the selected technology must be standardized or be uniform across the horizon of all multinational businesses, (3) that it requires uniformity in document it transmits directly into the concerned corporate treasuries, and (4) that there must be a built in flexibility in all the processes involved. The entire transaction is to be processed and completed electronically. The global money centers or other financial institutions are yet to offer the entire complete transaction electronically. The main reason for this absence of such needed service around the globe is that it is simply too expensive.

The current baking service, when it comes to global business transactions, luck simple openness and transparency. For instance, banks luck transparency in taking simple orders from large importers. Banks are unable to handle a network of import orders at once. Today's bank services in international trade also luck efficiency in receiving a multinational company import order data and timely share with the involved supply chains by transmitting the data to them in a timely fashion. There have been advances in global businesses financial services recently; but, the adequacy of these advances is yet to be desired. Currently, banks are not able to provide complete services that automatically match the company PO data to the electronic invoices. They are not even yet able to provide adequate technology assistance, through out sourcing, fee based or otherwise, to all supply chains.

When it comes to electronic connection with importers even local seekers of products and services, banks are unable to provide technology related assistance to the supply chains.

This sorts of service would have assisted such banks by providing them with additional customer base. There is another important service opportunity for banks to provide; that is, with all the international trade information they have, banks could provide technology for cross boarder compliance services. With the current, environment on security issues, banks have not taking advantage it by developing and providing such technologies and service them. They are in the position to provide all services connected with the trade that banks normally process.

Instead, other non-bank businesses are the leading providers of technology mostly though outsourcing activities. The top five outsourcing providers of financial technology are:

1) International Business Machines that is number #1 in information technology in financing
2) Sodexho Alliance provides outsourcing in asset management technology
3) Accenture, providing technology assistance in information processing, data management, and financial management services

4) Hewlett-Packard provides assistance in information management and communication technology management.
5) Capgemini provides outsourcing in information management, communication technology management, and financial management.

These are opportunities that banks could easily muster. However, banks need to decide on budget for the large expenses that is required to up grade their antiquated technology and decide to catch up with globalization and transform itself to leadership positions in international business/trade financing. All will require corporate political will and large capital outlays. No indications yet that banks are planning to pursue that avenue any time soon. In the last couple of years, most money center banks are rushing into mortgage businesses all across their business domains. If this real estate bubble continues, banks will still delay any reform or capital spending on technology or on processing innovations.

Instead, outsourcing of banking service technology and for international banking and trade is the great focus for all money center banks, at this moment. Such outsourcing of technology infrastructure seems to be desired in current global banking. Most of the outsourcing is done off shore. Most off shore regions of the world selected for outsourcing operations are India, China, Singapore, Malaysia, and some Latin American countries. The well known motive for outsourcing is cost minimization objective. Both the in-sourcing and the outsourcing banks processes and transaction transfers are performed by the in-sourcing banks. This approach to outsourcing allows banks to use state of the art technology without actual heavy investment in the required technology infrastructure. The use of such up to date processing technology ensures cost minimization or a cost efficient operations. In this manner, risk is transferred to the in-sourcing bank and also the operating cost would be predictable. This method would help the main bank minimize its general cost and thereby maximize shareholder value. Further advantage is obtained from a fully integrated system through outsourcing. There is also special benefit in cost saving due to the special links of community of corporate customers through such technology infrastructures. There will be further cost savings that is coming from community sharing of the cost of the processing.

Conclusions:

The letter of credit (LC) as the main system of international trade financing is still alive and well. Globalization advances have not yet created any significant threat to the traditional system of the 'letter of credit'. The major players in the traditional LC system are banks specially money center financial institutions through processing centers. However, banks need to take steps to keep their position in international trade finance and processing of it all through investing in the state of the art technology for this purpose. Through investing in advance technology, banks can maximize shareholders' wealth. Investing in state of the art technology will also enable banks to have access to advance creativity around the world as it evolves. Should banks decide and ready to make significant capital spending to up date their technologies in their global operations, the now top outsourcing global businesses will have to find something else to do. That is likely because banks are traditional and natural institutions in running world financial operations.

Here are few recommendations. (1) Banks need to understand of the changing globalization in the areas of their own international business. (2) Banks need to show sincere commitment to global customers that seem to have been taken for granted at this stage of globalization. (3) Banks need to be serious in revisiting their traditional operations and adapt new technologies in an advance globalization regime. (4) Banks need to search for required technology providers with necessary know how. And (5) Banks need to work on technology integration ideas and skills.

References:

Alan C. Shapiro, Multinational Financial Management, 8th edition, pp 13-14 and 414.

Wikipedia.org/wiki/outsourcing

Outsourcing.com

Outsourcing-weblog.com

Cio.com