Abstract

Financial institutions cannot isolate themselves from the trend toward globalization. Willingly or unwillingly, banks are being forced to move toward worldwide operation. One of the most compelling reasons for this change is the enormous potential of global transactions, whereby banks can offer services and credit facilities worldwide, tailored to customers regardless of where they are based. Global scope in transactions is necessary in order to offer effective worldwide services, resulting in a higher profitability for the bank on one hand and closer relations between the bank and customers on the other. This is not only the case for financial institutions; worldwide operations and, specifically, global financial transactions are a necessity for any company wanting to address a global market. Global transactions reduce transaction costs and add value in efficient and innovative ways. However, the variations among national markets present obstacles as well as opportunities to companies attempting to “go global.” This paper defines global financial transactions from a business perspective, leading to a framework for developing a new geographically distributed business model. This model describes the division of labor between national and supranational organizations. Between the ideal of globalization and the realities of national markets, an equilibrium must be found in which communication and coordination mechanisms across national boundaries play crucial roles. Efficient information access, management and processing facilitate operation on a global scale.

1. Introduction

As result of rapid and profound technological changes, social and economic developments and the rise of global communication facilities, the world seems to be shrinking. In recent years, the various changes in the business environment—the development of information and communication technologies (ICT), the convergence of customer needs, and changes in customers’ expectations—are forcing many organizations to "go global." This globalization offers new opportunities to both the private and public sectors. Yet the challenges of global business are as great as the incentives. Financial services must adapt to serve the needs of global clients. To reap the benefits of business globalization and expand their own customer base globally, financial services need to extend their services worldwide to any customer, anytime, anyhow, and anywhere.

The challenges for financial services wishing to compete globally and operate successfully in an international marketplace are daunting: serving the needs of a diverse customer base, and respecting the differences among national markets in legislation, rules, local policies, language and culture. The inherent risks in taking on these challenges cannot be ignored, nor is it possible to completely eliminate them; rather, they must be addressed with the goal of facilitating operations on a global scale.

The ability to conduct global transactions efficiently and therefore competitively depends upon an appropriate balance of globalization and localization of tasks and activities. The different conditions present at these levels make it difficult to operate fully from a supranational organization. Global transactions require clear yet flexible guidelines for evaluating credit risk, and a close understanding of how process and network flows need to be organized. This will be achieved by developing a new geographically distributed business model based on this understanding. This model describes the necessary distribution of tasks between the national and supranational organizations, so that all relevant information is available at the appropriate time and place. The determination of tasks, based on division of labor and the selection of appropriate coordination forms, presents
the central issue related to organization in and between corporations as well as in the economy as whole. Global transactions are founded on the organization’s capacity to develop a global strategy, which can lead to a corresponding business model.

The next section provides a blend of theoretical concepts and practical knowledge that can be useful in understanding and defining globalization and global business (Section 2). The research method is briefly described (Section 3). Subsequently, the inductive case study is described in detail. This case concludes with the discussion of the effect of the differences in national rules and regulations on global financial transactions, and the necessity of dealing with them effectively (Section 4). Finally, directions for future research are discussed, along with conclusions on the geographically distributed business model (Section 5).

2. Background

2.1 Globalization: opportunities and constraint

The term "globalization" is used to describe a number of related phenomena such as cultural convergence, international marketing, global products and production, and the increasing interrelatedness of the world’s economies. Stonehouse [3] describes globalization as, to a large extent, a business philosophy or way of thinking which emphasizes the similarities among national markets rather than the differences. According to Levitt [7], technological, social, political and economic developments have, in recent decades, driven the world toward a "global village" or "converging commonality," characterized by standardized products and services, and global strategies built upon economies of greater scale and scope. Levitt [7] further suggests that the focus of a global strategy ought to be the standardization of products and marketing. Yip, [15] argues that the benefits of global products (or services) can be achieved by standardizing the core product or large parts of it, while customizing the peripheral or other parts of the products. Regardless of the extent of product standardization, global business is no longer simply an option, it is a necessity [3]; businesses must "export or die." However, it is important for any company wishing to address a global market to recognize that laws and other country-specific constraints such as language and culture, accounting practices, tax codes, and banking regulations can vary. These variations make it difficult to prepare business agreements that are valid and appropriate in all countries. It is therefore important to understand these variations and how to manage them in order to conduct global business. This brings us to the general problem statement of this research: "How can the specific factors that differ from one country to another best be managed in order to facilitate business activity on a global scale?"

Yip’s research suggests that there are four categories of globalization drivers: customer, cost, government and
competition. These drivers represent the industry conditions that determine the potential for globalization. Each of the drivers must be analyzed in detail in order to approximate the extent of the pressures on industry for globalization or localization of business activities. Yip [15] also makes an important distinction between industries and markets with regard to globalization. Markets are just one of the factors driving the need for industry globalization. Customers and their needs define markets, and in fact, the market for many products is far from global. In serving customer needs globally, businesses must be alert not only to similarities in customer needs but also to differences, and to the increasing complexity of customers' requirements.

Industry globalization centers on the ability of businesses to coordinate their value-adding activities globally and across national boundaries. A global industry is capable of serving fragmented markets by producing products or services that are adapted to meet local requirements [11]. For Yip [15], the debate is not about whether industries or markets are global but rather about the extent of globalization in an industry and the impact that this has upon business strategy. And he confirms that the imperative to “go or go global” should lead to an analysis of each globalization driver. Any firm wanting to extend its business activities globally has to analyze the specific constraints of each national market. These constraints include the following:

- Language differences, which may affect the translation of advertising messages, trade names, brands, and communications;
- Cultural differences, which may affect behavior patterns, values and tastes;
- Legal and regulatory controls, including codes of practice and legislation;
- Economic differences, including the level of a country’s economic development and level of education;
- Cultural, institutional and political differences, which pose the greatest risk to international transactions [6].

In brief, it can be concluded from the literature that market globalization centers on customers and customer needs, while industry globalization centers on the abilities of business to respond to those needs. Many authors agree that global business is the wave of the future [6]; however, differences among national markets present risks as well as opportunities.

3. Research method

The effect of new trends on the global marketplace, such as the increase in customer expectations and the possibilities offered by developments in ICT, require quick organizational responses to introduce new services rapidly on the global market. The objective of this research is to develop a flexible new geographically distributed business model for financial services based on organizational abilities, which will offer a framework for dealing with the differences between countries.

This research will be discussed from three perspectives [2,12]: the macro-, meso- and micro perspectives. The macro perspective focuses on inter-organizational relations. From this perspective, services definition, formulation of business agreements, and cooperation between national organizations are important. The mesoperspective focuses on geographically distributed tasks as a whole. Of prime consideration here are information architecture and technology, and coordinating processes that take place across national boundaries. The microperspective deals with the primary tasks performed by individuals within the organization.

Little attention has been paid in the literature to a systematic description of geographically distributed business models. Furthermore, the literature does not provide clear insights into whether, and how, to deal with the differences among national markets in order to facilitate worldwide transactions. It is difficult, if not impossible, to develop such a model for global transactions. Therefore, an inductive research method was chosen, based on a case study, to develop a rich understanding of a complex and contemporary phenomenon within its natural setting [16]. A Dutch bank was selected, and multiple methods (survey, interviews) were utilized for data collection. The case study analysis was largely based on detailed, open-ended interviews. Interview subjects were questioned in depth on topics pertaining to many aspects of the financial industry. Among other questions, they were asked what outcomes they foresee from the regulation of banking services, what services they consider appropriate to offer on a global scale, how they expect customers requirements to change, and how they see their organization in ten years. Responses were summarized in a report immediately following each interview, which was then sent back to the interviewee for feedback, additional input and correction of any possible misinterpretation or misunderstanding. Thereafter, a first analysis was made in order to localize issues. Insight was developed incrementally. The main issues identified related to the need for worldwide governance and management of banking services. An issue discussed across all interviews was creating synergy and consolidation profit. In terms of the business model for global transactions, synergy implies sharing services in the framework of a standardized (global) transaction. The case described below serves as a basis for theoretical propositions and future research.
4. Inductive case: the financial service (the Dutch bank)

4.1 Introduction

The financial services industry includes banking, insurance, and capital management, and is characterized by product and market specialization. The Dutch bank provides large multinational companies with a range of services made possible by the global network. These services are focused on developing tailor-made solutions, full services, which meet the customers' needs. The bank is heavily regulated, for both fiduciary and monetary policy purposes. It is important to bear in mind the differences between countries in terms of culture, business ethics, legislation, economic structure and stage of development. These differences can be seen as obstacles and limitations in the effort to develop global transactions. However, examining and analyzing these differences can also be seen as spurs to operating globally. Flexibility, adaptability and responsiveness should be seen as the decisive factors in the competitive environment. Engler and Essinger [5], among others, argue that flexibility and speed of adjustment are the factors favoring the maximum competitive edge for financial service institutions such as banks. Many business transactions proceed in two stages. The first stage involves agreements between global clients and the bank about controlling the credit risk within the context of a sale. In the second stage, the financial transaction takes place at the operational level between the bank and the customer. Because of the customer's geographical location, the business transaction is surrounded by restrictions imposed by a high degree of national regulation; the market is thus confined to national borders. Both stages are dependent on each other, and both are essential for many business transactions.

4.2 Strategic shifts in the financial institution

Traditionally, national financial institutions are autonomous, not least because of their knowledge of local and national markets, products and opportunities. This, however, forces global clients to establish business agreements separately with each one of them. In each country, financial services are characterized by their special knowledge, products and assets. This special knowledge comprises regulations, rules, tax codes, language, culture and other specific national factors. The success of financial transactions depends on a good understanding of credit risk management. This is evaluated by gathering the necessary information about customers, contracts, amounts, and legal and fiscal implications. The type of transaction explored for this study was the business-to-business transaction. This type of transaction is conducted at two distinct levels, i.e., high-level transactions involving multinational companies, and low-level transactions involving retail clients in a particular country. Both levels are interdependent and essential to any business-to-business transaction. At the higher level, business-to-business agreements are defined by weighing risks and benefits, resulting in a low-level transaction, which is a contract between the bank and its clients. It should be pointed out that when global clients wish to conduct business in different countries, they are obliged to repeat the high- and low-level steps in each country, because of the autonomy of national financial organizations and the geographic location of clients. The idiosyncrasies of national regulations create barriers in the marketplace and limit business transactions. Each bank organization conducts its business transactions and makes decisions in its own way.

The absence of a global mechanism and the dispersion of national ones, with their many differences, result in considerable delays in determining the business agreement. These delays slow the introduction of products on the market, and consequently the services rendered to the customer. The absence of a global mechanism also hinders coordination among the national organizations, because of their differing priorities arising from differences in national legislation, organization level, work ethics and time zones, and hampers the gathering of information about the customer. This contravenes the principle that the customer’s demands and wishes must be paramount in maintaining business relations with the customer. The problem is a significant one, given that the customer's particular needs and demands are of importance to the bank.

The technological revolution and the possibilities of information exchange between organizations have had a considerable impact on organizations as well as on the expectations of customers. The client is increasingly clamoring for the freedom to operate not just locally but globally as well: swiftly and independently of any geographical restrictions and considerations. Correspondingly, the customer seeks a banking institution that has accomplished a reorganization allowing operation on a global level and, as much as possible, uniformity of service delivery. Customers are becoming increasingly demanding with respect to the quality of service and the speed with which orders are executed. To serve this purpose, strategic rethinking and related internal organizational adaptations are essential. To remain competitive, an organization must be able to deliver high-quality services efficiently, to canvass for customers, to operate globally, and to make closely defined business agreements with the client, while avoiding duplications of effort in different countries.

The strategy considered in this case is intended to allow the customer to operate on a global level. One of the advantages of such a strategy is that a bank pursuing it can expands its services and credit facilities to any customer in any country in the same way. This brings us to the concept of the supranational organization: the formation of a cross-
border umbrella organization, which can coordinate the individual characteristics of the national sources. To offer global transactions and to take account of growing diversity and growing customer demands and wishes, it is necessary to develop corresponding business models. This requires a detailed analysis of the similarities and differences between countries with regard to financial services and regulations, which influence the choice of tasks allocated between national and supranational organizations.

The analysis during this case was considered from three perspectives: the macro-, meso- and microperspective. The macroperspective concentrates on relations between organizations. Here the key points are determining which services are suitable for a global market and deciding what cooperation is required between the different national organizations for the purpose of supporting global transactions. The mesoperspective concentrates on the geographica spread of tasks as a whole, in other words, on determining which tasks should be executed where on the basis of different success criteria for a global transaction. The key points in this perspective are designing information structures and coordinating processes, which are executed across national borders. The microperspective deals with the primary tasks as they are performed at the level of the individual workplace. Within this perspective, the emphasis is on the analysis of the necessary skills and on the quality of the execution. Globalization is founded on the organization’s capacity to develop a global strategy, which should lead to clear global agreements and process transactions between national and supranational organizations.

4.3 Discussion

4.3.1 Towards a new business model. The new strategy described above requires the development of a new business model favoring global clients, with consideration of the differences among national markets. This model should include a high degree of customer relevance as well as consistent decisions about scope and value chain activities performed. The evaluation of this model is based on success criteria: time-to-market, time-to-consumer, and management cost-efficiency.

Designing a business model for global financial services demands a fundamental understanding of the differences between countries in terms of legislation, language barriers and standardization. One of the important variables in this framework is the distribution of the processes across the national and supranational organizations. Briefly, it can be said that each transaction process flow has three important interdependent analysis factors. These are information control, creditworthiness assessment and decision-making. The aim of information control is to control the information needed by the banks to assess the transaction under consideration. Gathering all relevant information requires interaction with other organizations and sources. On the basis of this information, the customer’s creditworthiness will be assessed. The purpose of this process is to facilitate decision-making with regard to approving or rejecting the transactions. The purpose of decision-making is then to evaluate the risk exposure with respect to the customer’s portfolio and to offer advice accordingly. Risk management is based on a number of analysis criteria, such as customer type, product type and national regulations. The differences among countries in terms of content and complexity of the three processes mentioned above make it virtually impossible to create a comprehensive standardization with regard to global transactions. No single business model would be sufficient. Because of the inevitable differences between countries, it is necessary to elaborate different scenarios, and then to make a choice on the basis of various criteria. Below we will elaborate different scenarios. Each scenario sets out the allocation of tasks to national and supranational organizations, as well as the accompanying process flow. Each of the scenarios will be assessed on the basis of three success criteria: time-to-market, time-to-consumer and cost management.

Time-to-market can be regarded as the crucial success factor in financial services on a global scale. It is characteristic of business opportunities that products and services must be created quickly. The implicit rule is that the product or service must be good enough to be sold and maintained, but it must also be pushed out of the door into the customer’s hands as quickly as possible. Time-to-consumer means the efficient organization of the transaction process for a fast and efficient service provision to the customer. The most important criteria in business success are higher turnover (transaction volume) and close relations with the customer. Information and communication technology can significantly accelerate the exchange and distribution of information between national and supranational organizations, so that this high transaction velocity can be achieved. To this end, an organization must be able to handle transactions in the most effective and efficient way. Cost management refers to the reduction of costs wherever possible. One of the advantages of global transaction is cost reduction and consolidation profit. This can be achieved by, for instance, better information management, elimination of time- and distance-related restrictions, and better access to the global market.
Maximum-local versus maximum-central

Maximum-local is a model with the aim of executing as many tasks as possible at the national level. This model has a strong resemblance to the current state of organization in the banking world. This scenario offers the advantages of personal contact with the customer and a division of responsibilities, so that each organization controls its financial transactions in its own way. Against this, however, the separated interests significantly slow down communication, so that cooperation becomes more difficult.

Maximum-central is a model with the aim of executing as many tasks as possible at the supranational level. In principle, this model has the same disadvantages as the maximum-local model, with the additional disadvantage of a time-consuming handling of each task because of the problem presented by country-based information gathering for risk assessment and decision making.

Mixed with local information control

This second scenario is based on the primary objectives of conducting business on a worldwide scale and creating speed and quality in service provision. On the basis of these objectives, the scenario describes the division of tasks between national and supranational organizations. This scenario is characterized by an emphasis on the process of local information control. In this case there are no problems due to differences in national regulations, since the information gathered and controlled at the national level determines the success of the financial
The advantages of this scenario are considerable: transactions are very fast, and the contact with the customer is effective. Since most other tasks will be executed at the supranational level, it will be possible to reduce costs. However, a disadvantage of this scenario is the lack of central availability of information about customers because the information gathering about and contacts with the customers are conducted at the national level. In this scenario, global transactions become possible through close coordination and improved communication between national and supranational organizations. This scenario is most suitable when the customer operates at the national level and not at the global level.

Mixed with clear agreement at the global level

The second and third scenarios show that the choice of a specific scenario is closely related to the type of customer on which information is gathered and processed to evaluate management risks. This fourth scenario describes the division of tasks at the national and supranational levels in order to execute global transactions with customers of any type. An important condition in this scenario is the possibility of clear agreements at the global level between the bank and the customer. Through its supranational organization, the bank can thus provide its services to all its customers, wherever they are located. This scenario combines the advantages of the second and third scenarios. In short, it hinges on clear agreements between the customer and the bank. These agreements are founded on the three key processes of information control, creditworthiness assessment and decision-making. This scenario is based primarily on uniting the needs of both supranational and national customers in a single business model. Information control and decision-making can take place either at the national or the supranational level on the basis of clear business agreements.

4.3.2 Globalization ideal versus national markets

Between the ideal of globalization and the realities of national markets, an equilibrium must be found, in which communication and coordination play a crucial role. Global business transactions require access to relevant information appropriate to each country in order to overcome the obstacles previously mentioned. The need for this information demands an analysis of the communication between processes and tasks and how task distribution should be effected on a supranational level. An inductive case was indispensable in exploring the effect of obstacles on global transactions and how to effectively deal with them. The analysis of transaction processes in different countries reveals a certain similarity.

One of the most important findings based on the inductive case and on several interviews with financial service experts is that a financial organization conducting transactions needs a special business agreement with the global client. This agreement needs to include a detailed discussion of credit risk management, taking into consideration the differences between national legislations, assets and other important elements in other to define the product or service rapidly. In other words, the most important step in the development of a geographically distributed business model is the formulation of a flexible business agreement, to be used in facilitating global transactions originating from the supranational organization. For global clients, everything can be managed from a central point if this is agreed upon between the bank and the client. If not, transaction stages can be managed locally if the client wishes to deal with the bank locally. The new model should allow financial services to offer global clients high-quality, standardized services.

5. Conclusion and future research

Despite national rules and regulations, it is possible to operate on a global scale according to clients’ demands. It should be stressed that a new model should be anchored in an information and communication strategy, with an information structure able to balance on the one hand geographical distribution and differences between countries, and on the other hand services specific to the client. Allowing too much freedom on the national level may conflict with efficient business management on the supranational level (standardization); when processes are carried out on a supranational level, national differences may endanger personal service to the client by, among
other things, imposing language barriers and differences in national regulations. Therefore, these two extremes must be brought into balance. The supranational organization must be designed in such a way that it can function efficiently on both sides, that is, offering sufficient standardization to perform tasks on a global level, while providing sufficient flexibility to respect specific national constraints. The complexity of these factors calls for a flexible and well-balanced model with close attention to overall coordination and configuration. Future research will address the following questions: Under which circumstances will a supranational (central) organization design be successful? Which tasks should be centralized and which ones not, based on which conditions? Which roles are needed in the central (supranational) and national organizations? What are the configuration and coordination mechanisms to use internally and with the customer? A second case is necessary to answer these questions and to investigate how a geographically distributed model can best be applied.

References

[1] Ayad, N. Published in Banking Review, May 2001