Centralisation of Banking Relations in the CEE Region

Sun Chemical Group Coöperatief U.A.

Bachelor Thesis





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# Executive summary

Sun Chemical is a US-based multinational corporation that produces inks and pigments for the publication and packaging industry. Its operations spread throughout Europe, North and South America and to a smaller extend in Asia and Africa. This research is focused on the banking relations of its subsidiaries in the Central and Eastern European (CEE) region. The scope of the study includes Bulgaria, Romania, Slovakia and Slovenia.

Currently these subsidiaries use the financial services of several banks and the company sees such fragmentation as insecure. Sun Chemical hopes that by centralising its banking relations in the region it can improve its control over the branches and enhance the transparency of local operations. In this respect the main research question is: How should Sun Chemical centralise its banking relations in the CEE region in order to improve the security of its local operations by the end of 2013?

The research was conducted in three stages. Firstly, in order to understand the problem and form hypothesis on the ways for solving it, interviews were held with the Treasury personnel of the company. Then, to determine the current situation, the controllers of the CEE branches were asked to fill in structured questionnaires and were interviewed via telephone to confirm and explain their answers. Finally, the selected banks were interviewed in order to find out what services they can offer and how they can help Sun Chemical achieve its goals.

It has been determined that full centralisation is not possible as no bank has coverage in the whole CEE region. Therefore, two banks were chosen by the company for the migration: Citibank and UniCredit. Sun Chemical has a preference to work with Citibank wherever possible, because of its strong global relationship with the bank and future possibility for the subsidiaries to become part of the company ERP system. As a result, the entities in Bulgaria and Romania would be centralised under Citibank. On the other hand, in Slovakia and Slovenia, where Citibank is not present, UniCredit has been selected for the migration of the branches, because of its leadership position and long-term commitment to the region.

For a smooth transition it is important to ensure that the bank products and services currently needed by the branches can be provided by the proposed banks as well. However, in order to improve the security of local operations some of the current practices need to be altered. For instance, petty cash should be substituted with corporate credit cards and expense reports. In addition, regarding foreign exchange trading, a solution is needed only in Romania, as the other subsidiaries do not face risk from currency fluctuations. In this respect, an independent trading platform, FXall is found to be the best solution for hedging the entity exposure and improving the central control over its trading.

The findings have shown that cost reductions on banking fees seem to be achievable with both banks. According to the cost analysis the new banks have offered more competitive pricing than the current ones in Romania and Slovenia. However, in Bulgaria and Slovakia, better offers need to be negotiated. There is solid reason to expect that the company would be successful in lowering the proposed charges, as both banks have shown willingness to consider the global benefits of the relationship and compromise on the local level.

On the other hand, the corporate goal for improving security and transparency in the CEE region can be accomplished only with Citibank. The bank structure allows for linkage of the local electronic banking system to the central one. In this way all transactions in Bulgaria and Romania will be visible at the central level and thus, Treasury control can be improved. In this respect, it is advisable that a separate payroll account is opened in Romania to limit the visibility of individual salary details. Additionally, payment templates can be created for all vendors of these branches, which would make payment execution faster, easier and more secure, limiting the possibility for fraud and error.

However, the structure of UniCredit does not allow for security improvement at the local level. The banking systems in Slovakia and Slovenia can be used only locally and cannot be monitored from the central office. Preformats in these systems can be created but free format transfers cannot be limited and account statements would not show a distinction between the two. This means that migrating the subsidiaries to UniCredit is not recommended as the corporate goals cannot be achieved and further research on other banks in the area is required.

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# Glossary

ATM Automated teller machine, cash dispenser

BGN Bulgarian new lev is the currency of Bulgaria

CEE Central and Eastern Europe

CitiDirect The name of the online banking platform of Citibank

CitiPulse: The name of the foreign exchange trading platform of Citibank (see Trading platform)

Direct debit Financial transaction in which one person withdraws funds from another person's bank account.

EFT Electronic funds transfer

ERP Enterprise resource planning; such systems integrate internal and external management of information across an entire organization.

FCY Foreign currency

FX Foreign exchange

FXall A multi-bank foreign exchange trading platform (see Trading platform)

Petty cash A small cash fund kept on a firm's premises for the payment of minor incidental expenses

RON Romanian new lei is the currency of Romania

SAP German ERP system (see ERP)

SBU controller Strategic Business Unit controller; For Sun Chemical this is a person based in Austria, who is responsible for directly controlling all branches in the CEE region.

Trading platform Software that allows investors and traders to place trades and monitor accounts

# Introduction

Sun Chemical is a chemical enterprise producing printing inks and pigments for the publication and packaging industry. Currently the company operates in around 50 countries globally. It has annual sales of over $3.5 billion and more than 8,000 employees supporting customers around the world (Sun Chemical, 2013). For tax purposes Sun Chemical Group Coöperatief U.A., based in the Netherlands, is set up as the legal headquarters of the company. However, major corporate decisions are taken in the operational headquarters in Parsippany, New Jersey, USA. The Dutch office houses Group Treasury, which is the department that oversees the all European branches.

Currently Sun Chemical uses the financial services of several banks for its operations in the Central and Eastern European (CEE) region and sees such decentralisation as inefficient. Due to the fragmentation of the banking landscape in the region transparency of transactions is low and Group Treasury is not satisfied with its level of control over the local activities. As a result, Sun Chemical would like to pull away from the local banks and move to a more secure global partner. The banks chosen by the company for the project are Citibank and UniCredit. Group Treasury hopes that by concentrating banking services under one intermediary it would enhance controls and security regarding electronic banking and foreign exchange (FX) trading. In addition, through the integration the company expects to benefit from higher transparency, decreased banking costs and lower need for reporting at the local level.

The main research question is: “How should Sun Chemical centralise its banking relations in the CEE region in order to improve the security of its local operations by the end of 2013?” In this respect security improvement is considered from the perspective of Group Treasury and entails increase in control and transparency regarding the local cash management and FX trading. The aim of the research is to analyse the gap between thecurrent situation and the desired state and to identify ways for narrowing that gap. In this respect the research first focuses on the current situation in the CEE region and then discusses whether and how the corporate goal can be achieved. In order to answer the main research question, there are several sub-questions that also require a response. These include:

* What banking services do the Sun Chemical subsidiaries in the CEE region currently use?
* How should banking services be provided to the company in the future in order to improve the security of local operations?
* Can security be improved if the CEE branches are migrated to Citibank and UniCredit?
* How would the centralisation impact the company financially?

The report is intended at the employees of Group Treasury. This is the team in charge of the CEE banking migration project and as such is the team that would use the report to take action. The results from the study should give a clear overview of the current situation and proposed future state. Additionally, the recommendation would outline the actions that need to be taken for executing the project and achieving the company goals.

This report first considers what is already known on the topic of centralisation of banking services in general. Then it explains the methodology used for the study, including the research design, scope and limitations of the investigation. In Chapter 4, the findings from the three stages of research are stated. The latter include familiarization with the problem, data collection on subsidiary level and research on the selected banks. The results first present the currently used products and services per entity, then explain the reasons for the choice of the preferred banks, and finish with an analysis of the financial effect of the project and challenges for its execution. Chapter 5 includes the discussion on the theoretical implications of the findings, their practical application, possible conflicts, timeline for the project and suggestions for further research. Finally, the report finishes with the recommendations to the company on how to execute the project.

# Literature review

As multinational corporations (MNCs) operate on a global scale they experience complications with the organisation of their capital structure and international treasury management (McMillan & Camara, 2012). They face the challenge of developing a robust and efficient treasury infrastructure that supports the needs of a constantly evolving and developing business (Polák & Klusáček, 2010). Because of that many MNCs tend to adopt a centralised structure for their cash management and other treasury activities (Mulligan, 2001).

Treasury management consists of four elements. Those include currency risk management, funds management, cash management and banking relationships (Mulligan, 2001). The focus in the following analysis falls on banking relationships and cash management through financial intermediaries and the benefits and challenges related to centralising these services. Sheedy (1993) singles out banking relations as one of the more important duties of a corporate treasurer. As such they require special attention and it is advisable that the treasurer is aware of what implications they hide. Shapiro (1989) identifies several problems related to banking relations. Those include: too many relations, high banking costs, inadequate reporting and excessive clearing delays.

Centralisation of cash management activities can offer MNCs the ability to achieve greater efficiencies, high transparency and access to real time information across a broad geographic area, multiple time zones, and many entities (Polák & Klusáček, 2010). Moreover, Walton (1995) suggests that there are three main drivers of centralisation. Those include cost savings achieved through the reduction of banking fees, more efficient use of human resources and improved risk management. He supports the belief that the centralisation of cash management services would facilitate economies of scale and eliminate repetitive work.

The management consulting firm, Scott Madden, has discovered that reductions in labor costs form the largest share of the cost savings from concentration of services (Berthiaume, 2012). According to them, the median labor cost reduction at companies after centralizing banking services equals 24%. The firm also states that the businesses they studies have achieved payback of the invested in the project capital within 19 to 44 months.

However, there are also certain costs associated with the centralised structure. Berthiaume (2012) lists four main categories: technology, facilities, implementation support, and severance. The last two typically represent the largest component of the total cost. Implementation support refers to the labour costs for project implementation and includes internal IT support, consulting support, and other vendor support. According to Scott Madden, different businesses have different project implementation costs, because of the difference in focus across the companies. The latter can be driven by company strategy, availability of resources, presence of existing technologies, and other constraints and priorities.

Additionally, the literature shows that the centralization of banking services may involve several problems. Success in the centralisation approach requires knowledge of legal and tax regulations of each country in which the MNC operates. Mulligan (2001) argues that it may be difficult to have the required knowledge in a single financial intermediary. Considering the CEE region it needs to be taken into consideration that the countries that comprise it differ in their economic and financial development. According to the Institutional Investor Journal (2010) the region should not be seen as a homogenous bloc but as a collection of markets with different opportunities and challenges.

Furthermore, under a centralised structure there may be problems with information transfers between subsidiaries making this approach inefficient (Mulligan, 2001). Additionally, Mulligan (2001) considers the possibility that the centralised structure could have a negative impact on the motivation of regional subsidiary management as local treasury functions lose autonomy.

The literature suggests that there is no generic optimal solution for the structure of each MNC (Ross, 1990). Collier et al. (1989) single out several factors that need to be taken into consideration when choosing the appropriate structure for the financial services management in an MNC. These factors include: group structure, extend of risk, evolution of treasury structure, management philosophy, quality of management, and economies of scale.

Research from 1995 conducted by Price Waterhouse suggests that pure forms of fully centralised or decentralised treasury organisations are rare. In most cases the two approaches overlap in any MNC. Slother (1993) found a strong relationship between the particular organisational culture and the MNCs structure. Considering US MNCs Mulligan (2001) claims that only a few of them have established a sophisticated centralised treasury centre responsible for treasury management activities. However, this situation has changed in the recent years (Euromoney, 2009).

Moreover, in the past two decades Central-Eastern European region has become increasingly culturally, politically and financially linked to Western Europe (Euromoney, 2009) However, according to Euromoney (2009) the region remains challenging for corporates who desire to centralise their liquidity management, both within CEE countries and between CEE and Western countries. In order to do so, the MNC needs to integrate all the accounts for all the participating subsidiaries in one bank (Polák & Klusáček, 2010). In this way the central treasury department would have accurate information on local level within the whole MNC and would be able to deal with arising problems in a timely manner.

To conclude, the centralisation of financial services presents both benefits and challenges to MNCs. The former include the increase in efficiencies, greater transparency and economies of scale, while the latter warns of potential problems with information transfers between subsidiaries or lack of knowledge on country specific matters. It can be determined that there is no generic solution applicable to all companies, and MNCs need to evaluate the options based on their own corporate culture and organisational structure. Considering the similarities between the countries in the CEE region it seems to be beneficial for US MNCs to integrate their financial services in the area. However, this needs to be done with caution as the countries also exhibit some differences in their economic development and present challenges to MNCs that wish to integrate their liquidity management.

# Methodology

## Orientation and scope

The research question concerns the banking migration of Sun Chemical subsidiaries in the CEE region from their local bank to either Citibank or UniCredit bank. It also requires that through the migration the corporate goal for improving security on the local level is met. Thus, it asks for investigation of the current and proposed future situation in order to determine the gap between the two and find ways for closing it. For the purposes of answering the research question the strategy used was of mixed nature. In the initial exploratory phase the orientation was purely qualitative, while in the second and third stages both qualitative and quantitative methods were used. This approach allowed for achievement of triangulation and higher validity of the results.

The scope of research is restricted to Sun Chemical subsidiaries operating in the CEE region. Therefore, the results from the study will not be generalizable for the whole company or other businesses. The branches in Serbia and Ukraine were excluded from the scope because they have already completed the migration process. Moreover, further limitation is applied on the entities operating in Albania and Macedonia as there are no international banks able to offer the required services in these countries. The branches in Croatia, the Czech Republic and Hungary that were originally part of the project were excluded from the scope of the current study due to time limitations. As a result, the countries included in the scope are Bulgaria, Romania, Slovakia, and Slovenia.

Regarding the researched banks, those were selected by the company prior to the current study. As a result, the investigation was limited to Citibank, UniCredit (member of UniCredit Group) and the current banks supporting the branches in scope. Furthermore, the focus falls only on banking products and services provided to the subsidiaries. Therefore, other types of products or intercompany services will not be considered.

## Data collection

The research was conducted on three stages: 1. Familiarization with the problem and the current situation; 2. Data collection on local (subsidiary) level; 3. Research on selected banks. Different research methods were used in the different stages of the study so that higher validity of the results is achieved through triangulation (Saunders, Lewis, & Thornhill, 2009). The collected data were evaluated with a combination of qualitative and quantitative analysis.

In the first stage interviews with the employees in the Treasury Department of Sun Chemical were conducted to gain knowledge on the problem and the goals for the project. The department consists of three employees and as the population size allowed it all cases were used in this phase. The data from the interviews were used to clarify the purpose and specifics of the project. It also suggested what information is needed for answering the research question and what sources should be used for obtaining it. During that initial phase the analysed information provided clarity on the requirements for the selected CEE banks. However, the determination of those criteria was finalized in the second stage of the study when the data on local level was collected. Even though this was the initial stage of the project it was not limited to the beginning of the investigation. The exploratory stage continued through the other stages of data collection and was completed in the first three months of the process.

During the second stage the focus fell on the local Sun Chemical branches. First, questionnaires were sent via e-mail to the controllers in the concerned entities. Those questionnaires were developed prior to the current investigation and have been used for similar projects in the past. After the questionnaires were collected interviews were held via telephone with the same controllers for clarification of their answers and filling of gaps. In this way triangulation was achieved. The goal in this stage was to understand what banking services those entities require, how those are provided currently and how they should be provided in the future. This phase took up to two weeks per branch and was completed in about two months for all four branches.

The final phase of the study included interviews with the local branches of the selected banks. Citibank and UniCredit were evaluated by the company prior to the current research and the reasons for choosing them are stated in the findings section. The interviews were conducted via e-mail and telephone. The latter, as the interviews conducted in the second stage, was done for clarification and achievement of higher validity of the results. In this phase senior employees from the Treasury department assisted in leading the interviews. This stage was executed in two months.

## Data analysis

The data type determined the choice of analysis method. Therefore, quantitative and qualitative data were studied using different techniques. The former was analysed through Excel. The use of more sophisticated research software was not found to be necessary as Excel allowed for the needed comparisons. Regarding the qualitative data, the information was put in an electronic format and colour coded for the ease of analysis. Then the different themes were outlined and studied separately.

## Population and sampling

As the size of the population is small, three employees, it was possible to use the whole population as cases in the first phase of the research. In this way the external validity of the research was ensured (Nowack, 1900).

For the second stage the population consisted of the Sun Chemical subsidiaries in Bulgaria, Romania, Slovenia and Slovakia. When selecting the employees to participate in the survey and interviews purposive sampling was used. The choice was made based on the suggestions of the regional SBU[[1]](#footnote-1) controller.

The population in the third phase of research included the banks operating in the CEE region that have been selected by the company prior to the current study. In this phase again the interviewed employees were selected based on their function at the bank. The contact details for the bank representatives were provided by the account managers of the banks that are responsible for the relationship with Sun Chemical.

## Limitations

Due to the limited time the investigation was restricted to only four of the seven CEE countries planned for the migration project. Moreover, limitations were found in the available sources for the literature review. As such company specific research is rarely published for a wide audience the focus of the desk research was shifted towards the more general aspects of financial services concentration.

## Internal validity

Even though every effort was made to conduct a research that is as complete and objective as possible, limitations were certainly present. For instance, the time for the study was restricted. The time constraints pose a threat to validity in terms of maturation of the results. It is possible that the variables used in the current investigation change over time which may hinder the course of the project. For example, the entity in Romania had undergone a recent restructuring. As a result, most of the preliminary information collected by the company was not accurate anymore and needed to be acquired again. Because of that it is advised that the project is executed shortly after the research has been concluded.

To ensure that the findings are really about what they appear to be triangulation of data collection methods was used. After the questionnaires were completed the controllers were interviewed via telephone. This was done for clarification of the answers given in the questionnaire. In this way the researcher could also explain the meaning of the questions so that it is clear for the controller what is asked of them and everyone is on the same page.

## External validity

Considering the external validity of the research, it can be perceived as legitimate but not generalizable to other populations. Since the population that the central question concerned was rather small it was possible to use all cases in the investigation. Therefore, the conclusions apply to the whole population. However, if the results were to be applied in a different research setting and to a different population, it cannot be expected that they would be accurate. As the purpose of the study was not to give a generalizable answer but to explain the particular situation in the concerned company, that is not found to be an issue.

## Reliability

The answers given by the subjects were based on facts and were not dependent on their personal situation or opinions. Therefore, the possibility of participant error or bias is limited. To lessen the threat of observer error the used questionnaires and interviews were highly structured. Therefore, the reliability of the study seems to be high and if the research was to be carried out again using the same methods and conditions it is likely to lead to similar results.

# Findings

## General structure

Sun Chemical has eleven subsidiaries in the Central and Eastern European (CEE) region. The company has one branch in each of the following countries: Bulgaria, Romania, Croatia, Slovakia, Slovenia, the Czech Republic, Hungary, Serbia, Ukraine, Albania and Macedonia. All these entities are set up under the subsidiary in Austria. There is an SBU controller in Vienna assigned to oversee the CEE branches and that is the person to whom they report.

In addition to reporting to the branch in Austria, the CEE entities also purchase most of their materials and/or finished products from it. They sell the processed or just repackaged goods mainly locally. When they send or receive payments the bank would charge a fee that is based on the type and volume of the payment. Additionally, based on the payment method different cash management products are used by the company.

## Objectives

The main goal of Sun Chemical for the project is to improve the security of its operations in the CEE region. This entails that central control over the local business needs to be enhanced and transparency regarding electronic banking and foreign exchange trading increased. Improvement in FX risk management can also be a potential benefit from the centralisation. Furthermore, the company also hopes to decrease the banking costs for the branches in the region. However, even though the latter would be beneficial for the local business it comes with second priority to Treasury.

## Products and services

This section focuses on the bank products and services, currently used by the subsidiaries in scope and suggests what would be required by them in the future. When transferring the CEE branches to a new bank, these products need to be available to ensure that the business functions normally. However, some of them may need to be altered in order for security improvement to be achieved. The products are described in three categories: payments and collections, payroll, and foreign exchange trading. All information presented below was collected through the field research.

## Payments and collections

Table 1 (below) presents the methods each subsidiary uses for its payments to vendors and collections from customers for its normal business operations. The data is presented per country (rows) and per payment method (columns). The payment instruments used by the subsidiaries are divided into paper-based and electronic. The former includes cash transactions and cheques, while the latter concerns domestic and cross-border electronic fund transfers (EFT) and direct debits. The company finds electronic instruments to be more secure because they are hard to falsify and easier to monitor. In this respect they are preferred over the paper-based ones. The matrix indicates whether the entity uses the particular method for payments or receivables. Where such indication is missing, it means that the method is not used by the branch.

It can be observed that cash is used as a payment instrument in most of the countries in scope. However, it is a company policy to get rid of petty cash and therefore the service may not be needed in the future.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Paper-based | | Electronic | | |
| Country | Cash | Cheques | Domestic EFT | Cross-Border EFT | Direct Debit |
| Bulgaria | Payments | - | Payments and Receivables | Payments | - |
| Romania | Payments | Receivables | Payments and Receivables | Payments | - |
| Slovakia | Payments | - | Receivables | Payments and Receivables | Payments |
| Slovenia | - | - | Payments and Receivables | Payments and Receivables | - |

Table 1: Payment methods used per country

As shown in the table above, cheques are used only in Romania. Approximately 70% of the receivables of the branch in the first quarter of 2013 were collected through this method. Some of the cheques are double endorsed. This means that the beneficiary can be changed and the received cheque can be used directly for payment without first cashing it (Geiger, 2013). Currently all cheques are stored in the local office until they are deposited. Treasury is concerned that this practice may allow for the cheques to be stolen and falsified. The Romanian branch of Citibank has confirmed that it can provide a lockbox service to the entity for secure storage of the cheques.

The findings show that all subsidiaries execute cross-border payments electronically. In most cases those are intercompany flows to the branch in Austria. The presence of cross-border receivables is less common in the region. Only the branches in Slovenia and Slovakia sell abroad but with small volumes of €250,000 and €1,400 per year respectively.

Finally, Direct Debit transactions do not seem to be used often in the region. Through this payment method the sender authorises the beneficiary to draw the funds directly from their bank account when the payment is due**.** The table above shows that this method is used only in Slovakia. As Direct Debit payments are instructed under a certain mandate when the migration takes place, these mandates would need to be renewed for the new accounts.

## Payroll

The majority of the entities in the region are small in terms of revenue and staff size. As a result, they outsource the payroll preparation to third party specialists. This is the case for all the entities in scope. Even though the payroll file is prepared by an external party the local controllers execute the payments themselves through an electronic bank transfer. Usually a four-eye principle is applied to payment execution. This means that one employee inserts and another one approves each payment. However, in Bulgaria there is only one employee operating the business. Being alone she needs to insert and approve all payments including her salary. This procedure seems dangerous from a security perspective as there is lack of transparency regarding the local transactions.

## Foreign exchange trading

All of the entities in scope purchase materials and finished products from the subsidiary in Vienna and sell mainly locally. Consequently, their receivables are in local currency, while their payables are in euro and they may be exposed to exchange rate risk. Slovenia and Slovakia have already accepted the euro and the entities there do not bear such risk. On the other hand, the Bulgarian Lev is pegged to the euro, which limits the transactional exposure of the Bulgarian branch.

The subsidiary that faces greater risk is the one in Romania. As the Romanian leu has shown significant instability against the euro over the past year (see Appendix 1) (OANDA, 2013), the entity is exposed to exchange rate risk. Currently the branch does not hedge its exposure and trades with its bank over the telephone whenever it needs euro to pay its vendors. This not only does not help in decreasing its exposure, but also creates issues from a security perspective for the firm. Such trades are not visible at the central level and thus are hard to monitor. Moreover, when trading over the telephone the agreement is done verbally and therefore there is no physical evidence of the specifics of the transaction. As a result, it is hard to prove what was discussed with the trader to an auditor. Because of that such trading is not preferred by the company.

The solution that Citibank can provide is an online trading platform called CitiPulse. Through this service the branch would be able to trade online with Citibank for hedging or spot conversion. As the platform is based online all trades will be recoded and can be correctly reported. In this way trades can be explained to auditors more easily if need be. CitiPulse supports the trading of FX Forwards, Swaps or a normal spot exchange. The user can request a price online and trade whenever market conditions are favourable for hedging their position.

Another option for hedging the transactional exposure of the branch that is currently used by the company in other areas is FXall. FXall is an independent electronic trading platform, provided by the Thomson Reuters Company. It functions similarly to CitiPulse but can be linked to the same platform used by Group Treasury and in this way local trades can be directly monitored centrally. Thus, the security of local FX trading can be significantly improved. Moreover, it is a multi-bank platform and as such would also allow the entity to compare the prices of all banks trading with EUR/RON and then choose the best offer.

## Preferred banks

The preliminary research, conducted by the company, has shown that none of the banks operating in the CEE region have coverage in all the countries proposed for the migration. Therefore, it appears that full centralisation under one intermediary cannot be accomplished in the area. Sun Chemical has a preference to work with Citibank wherever possible. As a result, the entities in Bulgaria and Romania, where the bank is present, are proposed for migration to Citibank. The company has picked UniCredit for the centralisation of the branches in Slovakia and Slovenia, where Citibank has no offices. The reasons for the choice of each bank are explained below.

## Citibank

Sun Chemical’s strong business relationship with Citibank is the main reason for its preference to use it for the centralisation in the CEE region. Most of its branches as well as its head offices already work with Citibank. Additionally, when bringing new business to Citibank the company can benefit from its global position and use that leverage to get a high service level for a competitive price.

Moreover, the online banking platform of Citibank, CitiDirect allows for a single point access to the cash management activities of all subsidiaries linked to it. This would permit the Treasury employees to monitor the transactions executed via the local e-banking system. Thus the control and transparency at the local level can be improved.

Additionally, Sun Chemical already has experience with Citibank in some of the CEE countries. For instance, in Bulgaria and Romania, the company has joint venture businesses with Delta BV. These are entities different from the branches in scope and have already undergone the migration to Citibank. This experience can be used in the current project for faster and easier execution.

Finally, adding these subsidiaries to the global CitiDirect platform provides future opportunities for them to become users of the company-wide Enterprise Resource Planning (ERP) system, SAP. SAP integrates internal and external information across the entire organization and makes it accessible for the authorized personnel regardless of their location (Rungta, 2010). In this way local data from all business activities can be easily monitored centrally. The system used by Sun Chemical is linked to the corporate Citibank platform. As a result, only entities working with Citibank can make use of the SAP system. At the moment such transition is not possible because of the high costs related to it, but the company would like to have the option open for the future.

## UniCredit

In the countries where Citibank is not present Sun Chemical has chosen UniCredit for the migration project. The bank has a strong presence in the region and holds a leadership position in the countries in scope. The long term commitment to the region shown by UniCredit is important to Sun Chemical as it would not be feasible for the company to repeat the migration process soon after its implementation.

Sun Chemical already works with UniCredit in three CEE countries – Serbia, Ukraine and Hungary. Bringing more business to the bank would strengthen this relationship and may create leverage for the company when pricing and service level are concerned.

## Cost analysis

This section examines the financial effect of the migration on the branches in scope as there are no direct costs for the central level. The proposed charges of the future banks are benchmarked against the current fees paid by the entities. All data presented below was collected through the field research[[2]](#footnote-2). Only the charges for the products and services currently needed by the local business are considered. The total costs are estimated based on the volumes of transactions in 2012 (See Appendix 2 for the calculations).

## Bulgaria

Sun Chemical Bulgaria is currently serviced by ING bank and is proposed for migration to Citibank. Therefore, the table below presents a comparison of the cash management fees of the two banks offered to the entity in Bulgaria.

|  |  |  |
| --- | --- | --- |
| **Product:** | **ING** | **Citibank** |
| **Account maintenance (monthly)** | BGN 30 | Free of charge |
| **Electronic banking (monthly)** | BGN 30 | BGN 20/ Free of charge |
| **Incoming BGN payments** | Free of charge | Free of charge |
| **Outgoing BGN payments** | BGN 0.80 | BGN 0.60 |
| **Outgoing FCY payments** | 0.10% (min. € 20, max. € 200) | € 30 |
| **Account statements (monthly)** | Free of charge | BGN 20 |
| **Withdrawal in BGN** | 0.3% | 0.3% min. BGN 5 |
| **Total fees** | € **3,751.35[[3]](#footnote-3)** | € **4,308.79**3 |

Table 2: Bulgaria pricing benchmark

It can be seen that Citibank offers a free of charge service for account maintenance and incoming payments in BGN. Moreover, Sun Chemical pays a fixed fee for all branches linked to its corporate CitiDirect platform. Thus, local charges for electronic banking can be avoided by adding Sun Chemical Bulgaria to that platform. Citibank also has preferential pricing for outgoing payments in BGN. On the other hand, looking at the fees for outgoing foreign exchange (FCY) payments and monthly account statements ING has a better offer. Finally, the cash withdrawal fees of the two banks are very close.

Even though Citibank has more competitive pricing on almost all components, it is visible that ING has a better proposition when the total costs are concerned. This is due to the high volume of the outgoing FCY payments, which are provided at a lower cost at the moment than Citibank has proposed for the future.

## Romania

The table below presents the current fees paid by Sun Chemical Romania SRL to Volksbank and the ones proposed by Citibank. It can be seen that on most items Citibank offers a better pricing. Only on cash withdrawal does Volksbank beat the offer of Citibank. However, it is a corporate policy to get rid of cash transactions and the entity may not need to use this service in the future.

|  |  |  |
| --- | --- | --- |
| **Product:** | **Volksbank** | **Citibank** |
| **Account maintenance (monthly)** | € 25.00 | Free for 3 accounts + RON 100 each for additional |
| **Electronic banking (monthly)** | € 15 | Free of charge |
| **Incoming RON payments** | first 10 are free, € 1.70 | Free of charge |
| **Outgoing RON payments** | Min RON 3, max. RON 17 | RON 2.5 |
| **Outgoing FCY payment** | 0.1%, min 25 EUR | 0,08%, min € 15, max € 300 |
| **Cheques** | Min. RON 8 - Max. 15 | RON 4.88 |
| **Withdrawal in RON** | 0.5%, min RON 2.5 | 0.5%, min RON 3.5 |
| **Total fees** | € **4,444.91[[4]](#footnote-4)** | € **2,851.126** |

Table 3: Romania pricing benchmark

Looking at the total costs per bank, it is evident that based on the current volumes Citibank has a more competitive offer than the current one. Therefore, migrating the entity to Citibank would have positive financial effect for the company.

## Slovakia

The branch currently uses Volksbank and is proposed for migration to UniCredit. Looking at the comparison of the two offers in Table 4, it is noticeable that currently Volksbank has a more competitive pricing than UniCredit. However, the offer provided by the UniCredit has not yet been negotiated to fit the specific cash management needs of the business. Therefore an improvement may be achieved.

UniCredit has offered a lower monthly fee on account maintenance and electronic statements but its electronic banking charges exceed the one the entity currently pays. As a result, the monthly fees paid by the entity would be much higher with UniCredit than with Volksbank. Additionally, the electronic service provided by UniCredit would require a one off installation fee that would bring the costs further up.

|  |  |  |
| --- | --- | --- |
| **Product:** | **Volksbank** | **UniCredit** |
| **Account maintenance (monthly)** | € 4.99 | € 3.29 |
| **Electronic banking** | | |
| **service activation** | NA | € 50.00 |
| **monthly fee** | Free of charge | € 4.98 |
| **Incoming domestic payments** | € 0.17 | € 0.27 |
| **Outgoing domestic payments** | 15 free (per month), then € 0.17 | € 0.12 |
| **Incoming cross-border payments** | € 0.17 | € 0.27 |
| **Outgoing cross-border payments** | € 0.17 | € 0.12 |
| **Withdrawal (per transaction)** | € 1.50 | € 2.00 |
| **Electronic statements (monthly)** | € 1.00 | € 0.30 |
| **Total Fees** | **€ 207.69** | **€ 307.40** |

Table 4: Slovakia pricing benchmark

Looking at the volume-based components of the cash management fees, Volksbank has a better offer for incoming payments, while UniCredit leads on outgoing transactions. However, Volksbank still holds the more competitive pricing when volumes are considered (See Appendix 2).

Finally, regarding the withdrawal fees, Volksbank shows a better offer. Nevertheless, the difference is not significant for the company as cash usage is likely to removed.

## Slovenia

Table 5 below shows the benchmark of the offer from UniCredit with the fees the entity currently pays to Volksbank. Looking at the comparison, it is noticeable that UniCredit has the more competitive pricing. However, the difference is not very significant.

|  |  |  |
| --- | --- | --- |
| **Product:** | **Volksbank** | **UniCredit** |
| **Account maintenance (monthly)** | € 5 | € 12 |
| **Electronic banking (monthly)** | € 8 | € 9 |
| **Incoming domestic payments** | € 0.10 | €0.13 |
| **Outgoing domestic payments** | €0.80 | €0.80 |
| **Incoming cross-border payments** | € 0.10 | €0.13 |
| **Outgoing cross-border payments** | € 0.80 | € 0.50 |
| **Electronic statements (monthly)** | Free of charge | Free of charge |
| **Total Fees** | **€ 3,120** | **€ 3,037.20** |

Table 5: Slovenia pricing benchmark

Looking at the monthly fees, Volksbank has the better pricing on all components. It also has made a better offer for the incoming domestic and cross-border payments. On the other hand, UniCredit matches the current pricing for outgoing domestic payments and has preferential offer for outgoing cross-border payments. The electronic account statements are delivered free of charge by both banks. As a result, because of the high volume of outgoing cross-border transactions, UniCredit’s proposition is more competitive than the one of Volksbank.

To conclude, neither UniCredit, nor Citibank can beat the local banks on all components. However, in Romania and Slovenia the proposed banks have a better offer when looking at the total fees. On the other hand, in Bulgaria and Slovakia Sun Chemical would need to use its global leverage to negotiate better terms.

## Other costs

In addition to the direct fees charged by the new banks, the project also involves some indirect costs for both the central and local level of the company. The literature distinguishes four categories of costs: technology, facilities, implementation support, and severance (Berthiaume, 2012). The CEE migration project does not involve the building of new facilities or the development or application of new technology. Moreover, because of the small number of local staff in the selected branches, the employees are usually responsible for several functions and thus are essential to the business. Because of that none of the employees would be laid off after completing the project and there would be no severance payments. Therefore, the costs related to the project fall in the implementation support category.

These are overhead costs from the time employees spent on project implementation and opportunity costs from not working on other projects. The former include portions of the salaries of the employees working on the project, office space rent, general supplies, and the costs of furniture, fixtures, and equipment. On the other hand, to estimate the opportunity costs it is required to compare the costs of the current project with the costs of projects that potentially could have been executed instead (Alden, 2005). As data on either is not available at the company, and due to the limited time and resources for the research these costs are not calculated at this stage.

## Challenges

The potential obstacles that Sun Chemical may face, while executing the migration project, differ for the two proposed banks. Because of that they are described in separate sections.

## Citibank

The controllers in Bulgaria and Romania have pointed out that they foresee issues with the migration of their customers. The process is expected to take more than three months because of the payment terms of 60 to 90 days offered to their customers. Additionally, both entities experience problems with customers paying late or not paying at all. They fear that their clients may use the bank migration of the branch as an excuse for not paying.

Furthermore, both controllers express concerns about the removal of petty cash. The method is still widely used in these countries for small local expenses such as office supplies, travelling and representative costs. The controllers point out that some local vendors would not accept credit or debit cards as a payment instrument. As a result, they advise that the complete removal of petty cash would not be possible, which poses a security concern for the company.

Additionally, when payroll is concerned there may be an issue regarding the privacy of the employees. As the centralisation of banking services would allow for greater visibility, the payroll details of the CEE workers would be available to more people within the corporation. This may assist in increasing the transparency in the firm but poses threats to the local level.

## UniCredit

From a security perspective it would be beneficial for Sun Chemical to have all local payments executed through preformats. The latter are payment templates, created prior to the transaction for each particular beneficiary. Such instruments would restrict the possibilities of mistakes and fraud as they usually do not allow for amendments on the local level without central approval. Even though UniCredit can deliver such service, it cannot block the use of free format transfers. Moreover, in its reporting there is no separation between payments made on a preformat basis and those executed through a free format wire. This creates compliance issues for the corporation as it needs to meet such standards for it reporting.

Additional complications may arise due to the structure of the bank. UniCredit has a central overlay structure that oversees the local branches. However, these branches are fairly independent and vary in the services they deliver. The bank structure requires the company to first discuss the migration with the central office of UniCredit and then with the local subsidiary. This may result in confusion, delays or miscommunication. Additionally, the local online banking platforms cannot be linked to the central system or to each other. This will prevent the SBU controller in Austria and Treasury employees from accessing the local account statements. In this sense migrating entities to UniCredit bank would not change the current situation and would not improve the security of local operations.

# Discussion



## Theoretical implications

Having too many relations is one of the issues Shapiro (1989) singles out as a potential problem when it comes to banking relationships. His research shows that using the services of many banks prevents the development of strong relations with any of them as the value the company brings for them gets diluted between many parties. On the other hand, the use of a few intermediaries creates leverage for the firm by condensing its value. In this way the firm can offer more to the banks and thus becomes a more attractive client for them. For instance, if Sun Chemical brings more entities to UniCredit, the bank is likely to take into account the global benefits of the relationship, instead of focusing on the local success of its subsidiaries. Thus, when pricing is concerned the bank would be more willing to compromise on the local level to ensure a good global partnership. The same is also true for Citibank. This was noticeable from the shown involvement with the project, quick response to inquiries and openness to negotiation by the local bank representatives.

The findings from the investigation support Polák & Klusáček’s (2010) view on centralisation that the concentration of services can bring high transparency and access to real time information across a broad geographic area. This goes in line with the main corporate goal for the project - to improve the security and enhance the control over the CEE branches. However, that goal can be achieved only under a Citibank structure. Regarding UniCredit, the issue with control and security still remains unsolved. The field research showed that UniCredit is not able to deliver such globally integrated service yet. This is due to the structure of the bank and according to Slother (1993) the structure is highly dependent on the organizational culture of the entity. In this respect, it is likely that UniCredit sees benefits in focusing its efforts locally rather than trying to integrate its operations globally.

Walton (1995) advocates that centralisation is driven by expectations of cost savings and greater efficiencies. This is not the main goal of Sun Chemical but at the initial stages of the research it was apparent that the company believes the centralization can bring such benefits. Cost reduction and efficiency improvement seem to be achievable with both UniCredit and Citibank.

Even though the centralisation appears to be rather beneficial for the company it may also involve certain challenges. Mulligan (2001) argues that it may be difficult to find a financial intermediary that would have the expertise for the whole region in-house. His view has been proven by the fact that no single bank has coverage in all CEE countries. The research has shown that UniCredit is the bank with the largest presence in the area. However, it manages its greater reach by having a fragmented, locally focused structure. Consequently, linkage between its different branches is not possible. On the other hand, Citibank has a globally integrated structure but has a smaller coverage of the CEE area.

Furthermore, as suggested by the literature, the CEE region should not be considered as one homogeneous unit, but the differences between the countries need to be taken into account (Institutional Investor Journal, 2010). These differences have become apparent in the second stage of research, which was focused on the local subsidiary level. As a result, the project is likely to be executed differently in each country. This is even more strongly suggested when it comes to the separation between different banks.

## Practical application of findings



## Payments

It is a corporate policy to get rid of petty cash, which is still commonly used in the CEE region. The method is not preferred because its use is hard to monitor and regulate. In this respect, eliminating it as a payment instrument can improve the security on the local level.However, as the practices in Bulgaria, Romania and Slovakia would not allow the complete removal of cash transactions, the company needs to find another solution. Alternatives to petty cash would be credit cards and the use of expense reports. The volume of such transactions in Bulgaria is low (€300 per month) and there is only one person operating there. Therefore, it is advisable that she pays for such expenses herself and asks for reimbursement after the transaction. The compensation can be delivered through a bank transfer and thus allows for avoiding the cash transaction for the company.

In Romania and Slovakia where petty cash payments have a higher volume (€500-€600 per month), it is advised that a credit card is issued for one employee in each entity. This card will be linked to the corporate Sun Chemical plan with Citibank and thus will allow Treasury to monitor the local transactions. The payments that cannot be executed through the credit card can be performed like to the ones in Bulgaria using expense reports.

Furthermore, the findings show that the Romanian branch collects its receivables mainly through cheques. The corporate policy is to avoid the use of cheques as they are found to be an insecure payment method. However, because of the high volume of cheque receivables in Romania, the payment instrument cannot be eliminated. Therefore, it would need to be managed securely in the future. Currently the received cheques are stored in the local office. However, because of the high volume it is advisable that a lockbox service is set up for storing these payment instruments securely at the bank. This is needed because some of the cheques are double endorsed and therefore bear the risk of being falsified and cashed by third parties (Geiger, 2013). As Citibank does not charge a fee for providing this service, the subsidiary would not suffer financially for using it.

The structure that is currently applied for processing of accounts payable in Bulgaria would need to be changed in the future. There is only one employee in the entity and she is authorised to insert and approve all payments. This situation is not desired by the company because it may create conflict of interest and security issues. This is especially true when it comes to payroll as the employee transfers her own wage. Therefore, a control system needs to be established in CitiDirect so that the potential of future problems is minimized. Citibank can provide a product that involves the creation of payment templates (preformats) and would assist in lowering the risk of fraud and error. These templates can be created locally for all vendors and the employee in Bulgaria and would need to be approved by the central Treasury office. In this way the worker will be able to execute payments faster and will be limited solely to the authorized transactions.

As Citibank’s structure allows it, the same solution can also be implemented in Romania. Having payment templates created for all vendors would not only limit the possibility of mistakes and fraud but would also improve the central control over the local entities. However, linking the local platform to the global one would make salary payment details visible to a greater audience. This can create issues on the local level as the employees’ privacy may be compromised. That is why it is advisable that a separate bank account is created exclusively for payroll. In this way the individual transaction details would be visible solely for the authorized parties and only the lump sum would be shown on the account statement. As the pricing offer of Citibank includes a free of charge maintenance for three accounts, opening a payroll account would not impact the business financially.

Direct Debit is currently used as a payment instrument only in Slovakia. These payments can easily be transferred to the new bank by renewing the current mandates for the new accounts. However, for all other payment instruments letters would need to be sent to the customers, notifying them of the change. During the process of customer migration the old accounts would need to stay open to ensure that no payments are lost. Because of that the branches would need to pay both the fees in the new and the old bank for several months.

On the other hand, another issue presents itself when it comes to the structure of the proposed bank in Slovenia and Slovakia. As UniCredit cannot provide an integrated global solution that would create transparency regarding transactions, security of payment processing cannot be improved. Additionally, even though preformats can be created for the vendors, a distinction between payments made on a preformat basis and those executed through a free format wire will not be available. As a result, free format transactions cannot be limited. It can be concluded that Sun Chemical will not be able to meet its goals for improved security and transparency in Slovenia and Slovakia if UniCredit bank is used.

## FX exposure solution

Looking at the foreign exchange exposure of the subsidiaries in scope, it seems that a solution needs to be developed only for the Romanian entity. Citibank has offered to support with its online banking platform – CitiPulse. This product would allow the Romanian branch to hedge its exposure and will record all trades automatically, making it easier to report them. However, the platform would not allow Treasury to monitor the local trading and would require the entity to trade only with Citibank, which may not always be beneficial for it. A better solution would be to use the independent multi-bank platform FXall. Through this product Treasury would have view only access of the local platform and would be able to monitor the executed trades easily. Additionally, the entity would be able to see the offers of all banks, which trade with EUR/RON. Therefore, it can choose the most competitive price and lower its FX trading costs.

## Pricing negotiation

Looking at the pricing offers, it is apparent that the bank proposals of Citibank in Bulgaria and UniCredit bank in Slovakia exceed the current costs of the entities. If the prices stay the same, that would hurt the local business financially. Because of that it is recommended that the company uses its global leverage to negotiate more competitive terms. For instance, in Bulgaria the pricing for electronic account statements and foreign currency wire payments are higher than the ones currently offered to the branch. Accordingly, although on other components Citibank’s proposal is more competitive the total cost is higher than the current one with ING. Furthermore, even though the proposed fees in Romania and Slovenia would lower the cash management costs for the entities, the bank offer can still be challenged to increase the benefits from the migration project.

In addition, for easier budget forecasting it is recommended that fixed pricing is used instead of tier pricing. The latter means that different fees are charged based on the amount of the transaction. Even though this may be beneficial when the value of payments is small, it is recommended that the company negotiates a low set fee. The optimal fee can be determined based on the current transactions of each entity.

## System

The field research has shown that one of the reasons to choose Citibank as a preferred partner is the potential to link the CitiDirect platform with the corporate ERP system. This would mean that all transactions executed through the online banking would be exported to the system and visible to whoever is authorized to access the data. Such interface is not possible with other banks as it was already set up with Citibank. The decision on whether to put an entity on SAP is evaluated based on the size of the entity and the implementation fees. Therefore, even though the company would like to have all entities in the SAP system to enhance the control and transparency within the firm, this is not recommended due to the too high installation costs. In this case the cost aspect outweighs the benefits in security improvement. As a result, because of their small turnover, none of the entities in scope are going to be part of SAP at this stage. However, migrating branches to Citibank would allow for keeping the option open in the future.

## Possible conflicts

Considering that the subsidiary’s and the parent’s perspective differ when evaluating a project (Madura & Fox, 2011), a conflict of interest may arise between the two. Greater control, higher transparency, cost reduction and lowered work load are among the objectives for initiating the migration. However, as all cannot always be achieved simultaneously, the company would have to choose which one is more important. When setting priorities regarding the goals, the view of the parent and that of the subsidiary may differ.

Firstly, having centralised cash management would bring greater transparency as local transactions would be visible to all parties that need to see them. Consequently, less reporting would be required from the branch, thus making the centralisation beneficial for both sides. However, it would also make payroll payment details visible to all employees with access to the system and may cause a breach of privacy on the subsidiary level.

Cost reductions are desired by both levels. However, for the parent security improvement has higher priority. As a result, even if the local bank has a more competitive offer, the global partner may still be preferred. This is the case in Bulgaria, where the cash management charges proposed by Citibank exceed the current fees paid by the branch.

## Timeframe

The target for completing the project is the end of December 2013. The stages of implementation include: blueprinting, documentation preparation and customer migration. The first stage includes the data collection from the local business and the banks and has been completed with the current research.

The second stage requires the collection of all necessary account opening documents from the chosen banks from Treasury and their completion by the local controllers. In this stage Treasury should first work closely with the local representatives of the banks to obtain the required documents and to negotiate the proposed pricing. Then the terms should be discussed with the subsidiaries and if they are comfortable with the suggested plan, a meeting can be arranged between the local bank and the Sun Chemical branch. Once all documents are signed by the local representatives it is recommended that they are first reviewed by Treasury and then sent to the bank. As the project calls for quick execution, the second stage of documentation preparation has already began in June 2013 and is expected to be completed by the end of August for Bulgaria and Romania, but may take one or two weeks longer for Slovakia and Slovenia.

Because of the holiday season over the summer it is recommended that the customer migration starts from September. This stage would start immediately after the new accounts are opened. Treasury should provide samples of customer migration letters to all local controllers which in their turn should distribute them to their customers. These letters should inform the customers about the migration and would contain the new account numbers of the entities. The migration is expected to take two months for Slovakia and Slovenia and three months for Bulgaria and Romania considering the payment terms given to their customers. Therefore, it is expected that the project will be completed by the end of 2013. However, the branches in Bulgaria and Romania have reported that their customers usually pay late, which may require that they keep their old accounts open for a longer period.

## Suggestions for further research

Firstly, as by transferring entities to UniCredit bank Sun Chemical will not meet the corporate goal for improving security, it is essential that other financial intermediaries are investigated. It is possible that other banks may be able to deliver the required services in the concerned countries and allow Sun Chemical to achieve its objectives. However, the results of such research are unclear. In addition, this would delay the execution of the project and would prevent the company from meeting the set deadline. Postponing the project implementation would also cost the company time and resources. Nevertheless, executing without exploring other options might be disadvantageous for the firm as it may require more work in the long term. There is also risk that there would be no other bank able to fulfil Sun Chemical’s needs. In this respect, the company would need to evaluate whether it is more beneficial to have the entities migrated to UniCredit group or leave them with their current banks.

Secondly, the scope of the research can be extended to the other Sun Chemical subsidiaries in the CEE region. It seems that the goals that the company has set for the project would be achieved with greater benefits if the venture includes all of the CEE entities that are still using local banks. Therefore, the same study can be performed for the branches in Croatia, Hungary and the Czech Republic as well in the future.

Moreover, it could be investigated why international banks are not present in Albania and Macedonia. As the company wants to centralise all its banking relations not only in the CEE region but globally, having local banks anywhere is an issue. Finding out the reasons for international banks to avoid the region, may give suggestions for ways to deal with the problem. For instance, such study can find out reasons for restructuring the local business or ways to go through the bank branch in a close by country.

Finally, it may be beneficial for the company to invest in research on all costs that the project involves. As Sun Chemical has conducted several similar project and there is the possibility that more may come up in the future it is important for the company to gain an understanding on their financial impact. The costs and benefits from the project need to be determined and it had to be evaluated if it is beneficial for the company to execute it. The research may also show where costs can be cut or advantages maximized.

# Recommendations

As the research question asks how Sun Chemical should centralise its banking relations in the CEE region in order to improve the security of its local operations, it implies that the goal for strengthening security and control needs to be met for the project to be successful. Thus, when migrating branches to a new bank it is essential to find ways to increase the transparency and control within the company. Therefore, there are five recommendations on how to execute the project in order to achieve this goal.

* + - 1. Do not centralize banking relations in Slovakia and Slovenia.

When it comes to transferring the branches in Slovenia and Slovakia to UniCredit group it seems that Sun Chemical will not achieve itsgoal for improving security. Therefore, at this stage it is not advisable that the company goes forward with the project for these entities. It is recommended that further research is conducted on other banks in the region that may be able to provide a better service and thus allow for reaching the corporate objectives. Therefore, the company also needs to evaluate the importance of the project internally and to consider whether moving the entities to UniCredit would be more beneficial than leaving them with their current banks.

* + - 1. Use payment templates in Bulgaria and Romania to execute payments securely.

Transparency regarding payment execution can be increased with the creation of preformats for all vendors and employees in Bulgaria and Romania. The templates can be created locally in the electronic banking system of Citibank and should be approved by Treasury. In this way the workers instructing the payments will be limited solely to the authorized transactions and possibilities for fraud and error will be minimized.

* + - 1. Open a separate payroll account in Romania

To limit the visibility of payroll payments in Romania, it is recommended that a separate bank account is opened only for the executions of these transactions. In this way the account statements would show only the lump sum that was transferred, without the details of each employee’s wage. Thus, the level of transparency regarding local transaction would be improved while still protecting the privacy of the employees.

* + - 1. Substitute petty cash with credit cards and/or expense reports

As the company finds the use of petty cash insecure and hard to monitor it is recommended that this payment method is substituted by corporate credit cards or expense reports. In Bulgaria where the volume of cash transactions is low and local practices do not allow for all payments to be executed through a credit or debit card, expense reports are found the be the more suitable solution. The employee can pay for such local expenses herself and ask for reimbursement at the end of each month. The compensation can be delivered through a bank transfer in order to avoid the cash transaction for the company.

In Romania the amount of cash transactions is much higher than in Bulgaria and it is proposed that a corporate credit card is issued for one employee in the office. A credit card from Citibank will be linked to the global corporate plan of Sun Chemical and will be easily monitored by Treasury. For transactions that cannot be executed with the card, expense reports can be used analogically to the recommended once for Bulgaria. In addition, the Romanian branch collects the larger part of its receivables through cheques. It is recommended that the company sets up a lockbox with Citibank, where these payment instruments can be stored securely. In this way the possibility of having cheques stolen and falsified would be limited.

* + - 1. Install the FXall trading platform for the branch in Romania

In order to improve the security of the local FX trading it is recommended that a trading platform is set up at the Romanian branch. Such a solution is not needed in the other countries as they do not face exchange rate risk. However, because of the volatility of the Romanian leu against the euro it is advisable that the company hedges its exposure. The use of the FXall trading platform is recommended because it allows for trading forwards as well as spots and the company can monitor the local transactions. Additionally, FXall is a multi-bank platform and as such allows for comparison of the prices of different banks. In this way it would help the entity reduce its costs of trading.

# Conclusion

The main question for the research is “How should Sun Chemical centralise its banking relations in the CEE region in order to improve the security of its local operations?” The leading goal of the company is to increase its control over the subsidiaries in the CEE region and to enhance the transparency when electronic banking and foreign exchange trading are concerned.

The findings have shown that the CEE countries cannot be considered as one homogeneous block. The branches differ in the products they require and the selected banks – in what they can deliver. Because of that the project needs to be executed differently for each subsidiary.

Furthermore, it seems that cost reductions in bank fees can be realized with both banks if better terms are negotiated in Bulgaria and Slovakia. However, the main corporate goal for security improvement can only be achieved for the subsidiaries migrating to Citibank. The findings show that it cannot be accomplished for the Slovakian and Slovenian branches if they are transferred to UniCredit. Instead Sun Chemical should search for a more suitable bank or other ways to increase its control over the local entities.

In order to improve the security of its operations in Bulgaria and Romania, Sun Chemical needs to set up controls in the local electronic banking systems and link them to its global CitiDirect platform. Moreover, paper-based payment instruments are not preferred by the company as they are hard to monitor. To increase the control over the local branch petty cash usage can be substituted with credit cards and expense reports. On the other hand, checks can be stored at a lockbox at the bank to minimize the possibility that they get stolen and falsified.

The company would also need to install an FX trading platform in Romania, to lessen the exchange rate risk and to increase the control over the local transactions. In this way transparency of local operations will be improved. The increase in transparency would require the company to also consider issues regarding the privacy of employees. In Romania payroll details will become visible to a greater audience if no measures are taken. In this respect a separate bank account can be opened exclusively for payroll, showing only the lump sum of the transaction in the account statement.

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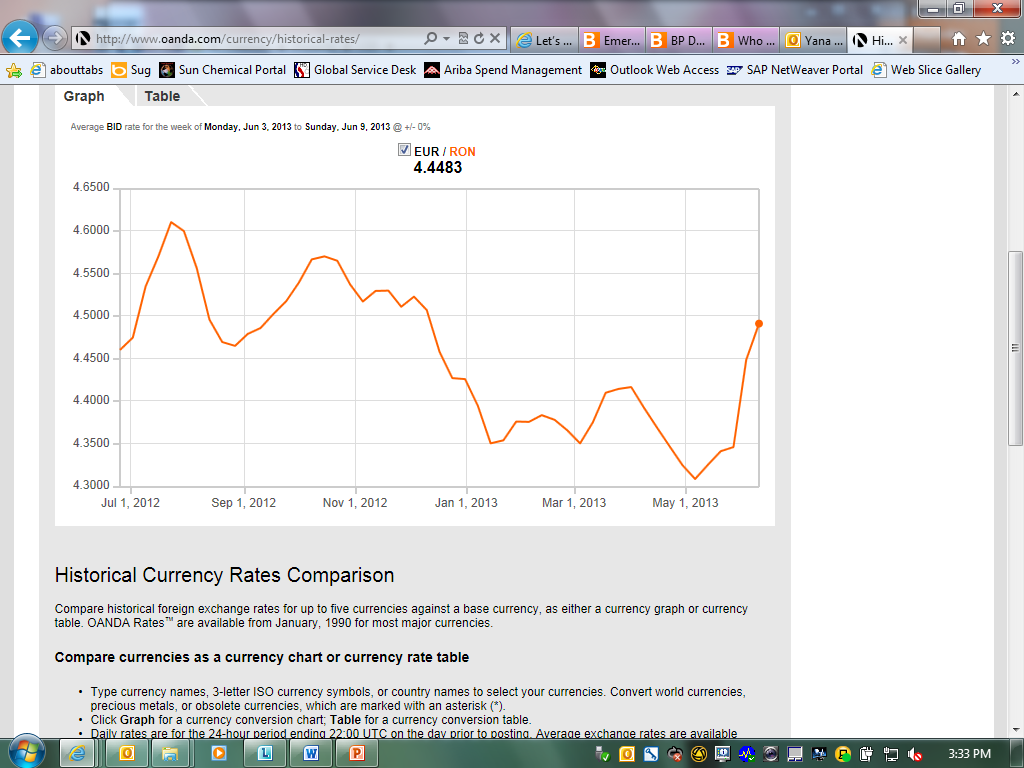
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# Appendix 1: EURRON Fluctuations

The graph below shows the exchange rate movement of the Romanian new lei against the Euro for the period of one year, starting June 25, 2012 and ending June 16, 2013. Looking at the figure, it is noticeable that the exchange rate of the currency pair shows certain variability. The fluctuation of the rate varies from a low of 4.3083 to a high of 4.6099. As a result, the entity in Romania that receives Lei and pays Euro is exposed to exchange rate risk.

Figure 1: EUR/RON exchange rate movement June 25, 2012 - June 16, 2013



Source: [www.oanda.com](http://www.oanda.com)

# Appendix 2: Cost Analysis Calculations

The tables below present the current and proposed banking costs for each entity. Those were calculated based on the actual transaction volumes of the entities over 2012. For fixed charges, the cost is estimated by multiplying the proposed bank fee by the specified volume. For variable charges the calculation differs depending on the particular fee. Those are explained below. Additionally, some of the information on the actual volumes was not available for all countries. As a result, assumptions were made based on the data that was available.

1. **Bulgaria**

The first table shows the calculated costs for the entity in Bulgaria. All data in the table depicts the actual information for 2012. The costs are calculated in EUR as the comparison would be evaluated centrally. The conversion was made based on the EUR/BGN exchange rate of 1.9558 (Bloomberg, 24 June 2013).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Bulgaria** |  |  |  |  |  |
| **Product:** | **ING** | **Citibank** | **Annual Volume** | **Costs ING** | **Costs Citibank** |
| Account maintenance (monthly) | BGN 30 | Free of charge | 12 | € 184.07 | € 0.00 |
| Electronic banking (monthly) | BGN 30 | Free of charge | 12 | € 184.07 | € 0.00 |
| Incoming BGN payments | Free of charge | Free of charge | - | € 0.00 | € 0.00 |
| Outgoing BGN payments | BGN 0.80 | BGN 0.60 | 148 | € 60.54 | € 45.40 |
| Outgoing FCY payments | 0.1% (min € 20.00- max € 200.00) | € 30 | **137** | € 3,292.00 | € 4,110.00 |
| Withdrawal in BGN | 0.3% for sorted notes; 1% do unsorted | 0.3% min. BGN 5 | BGN 500x12 | € 30.68 | € 30.68 |
| Account statements (monthly) | free of charge | BGN 20 | 12 | € 0.00 | € 122.71 |
|  |  |  |  | **€ 3,751.35** | **€ 4,308.79** |

The fees for outgoing foreign currency payments of ING bank have a percentage component and a fixed minimum. Therefore, for the payments below EUR 20,000 a standard EUR 20 fee is applied. In 2012 there were 126 with a lower amount. On the other hand, for payments above that threshold the charge is 0.1% of the amount and the sum of all transaction with a higher value is EUR 772,000. Consequently, the total cost with ING bank for that component would be equal to EUR 3,292.

1. **Romania**

For the Romanian entity a EUR/RON exchange rate of 4.5318 (Bloomberg, 24 June 2013) was applied. The used volumes are based on the controller’s approximation of their transactions in 2012. On some components tier pricing is applied. Therefore, the calculation is not exactly straight forward. Those items are presented in bold in the table and the calculation is explained below.

Regarding the outgoing payments in foreign currency, the calculation included different prices for the transactions with different value. For the payments below 25,000 RON a standard 25 euro fee is paid with Volksbank, while with Citibank 15 EUR minimum is paid for all payments below 18,750 RON. During 2012 the entity had 23 transactions below 25,000 RON and 21 transactions below 18,750 RON. The total number of transactions over the year was 52. For the remaining transactions the cost calculation was based on the percentage fee charged by each bank.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Romania** |  |  |  |  |  |
| **Product:** | **Volksbank** | **Citibank** | **Annual Volume** | **Costs Volksbank** | **Costs Citibank** |
| Account maintenance (monthly) | € 25.00 | Free for 3 accounts | 12 | € 300.00 | € 0.00 |
| Electronic banking (monthly) | € 15.00 | Free of charge | 12 | € 180.00 | € 0.00 |
| Incoming RON payments | first 10 (p.m.) are free, 1.70 | Free | **300** | € 67.53 | € 0.00 |
| Outgoing RON payments | Min RON 3, Max. RON 17 | RON 2.5 | 600 | **€ 397.26** | € 332.37 |
| Outgoing FCY payments | 0.1%, min 25 EUR/tr | 0,08%, min EUR 15, max EUR 300 | **52** | € 2,961.61 | € 2,186.81 |
| CB reporting - Electronic DIE - DPE | N/A | Free of charge | - | € 0.00 | € 0.00 |
| Cheques | Min RON 8 - Max. 15 | RON 4.88 | 300 | **€ 529.68** | € 323.10 |
| Withdrawal in RON | 0.5% of the amount, min RON 2.5 | 0.5% with min RON 3.5 | 8000 | € 8.83 | € 8.83 |
|  |  |  |  | **€ 4,444.91** | **€ 2,851.12** |

Looking at the incoming payments in RON, Volksbank allows for 10 free receivables per month and if there are more they cost 1.70 EUR. As a result, the 300 yearly payments were divided into 12 to see the amount of receivables per month, which is 25. As the first 10 are free, the fee would be charged for 15 receivables every month, as reflected in the table above.

Finally, considering the outgoing payments in RON and the cheques, tier pricing is applied with the current bank. However, as it was not clear how those prices were exactly applied, it was assumed that the lowest fee is charged on these components.

1. **Slovakia**

For Slovakia, the volumes in the table for most of the components are based on the actual transaction data for 2012. However, there is no available information on the actual volume of incoming domestic payments. The latter was calculated based on the number of local customers (42) and their average payment terms (90 days). Therefore, it was determined that the 42 customers pay 4 times a year and as a result there are approximately 168 domestic payments received per year. However, as not all customers pay within their payment terms, this amount is only an approximation used to estimate the difference between the current and proposed costs.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Slovakia** |  |  |  |  |  |
| **Product:** | **Volksbank** | **UniCredit** | **Annual Volume** | **Costs Volksbank** | **Costs UniCredit** |
| Account maintenance (monthly) | € 4.99 | € 3.29 | 12 | € 59.88 | € 39.48 |
| Electronic banking: |  |  |  |  |  |
| service activation | NA | € 50.00 | 1 | € 0.00 | € 50.00 |
| monthly fee | Free of charge | € 4.98 | 12 | € 0.00 | € 59.76 |
| Incoming domestic payments | € 0.17 | € 0.27 | **168** | € 28.56 | € 45.36 |
| Outgoing domestic payments | First 15 p.m. - free, then € 0.17 | € 0.12 | 240 | € 10.20 | € 28.80 |
| Incoming cross-border payments | € 0.17 | € 0.27 | 4 | € 0.68 | € 1.08 |
| Outgoing cross-border payments (SEPA) | € 0.17 | € 0.12 | 461 | € 78.37 | € 55.32 |
| Withdrawal (per tr.) | € 1.50 | € 2.00 | 12 | € 18.00 | € 24.00 |
| Monthly electronic statements | € 1.00 | € 0.30 | 12 | € 12.00 | € 3.60 |
|  |  |  |  | € **207.69** | € **307.40** |

1. **Slovenia**

Finally, for Slovenia, the calculation is based on the estimations of the local controller. No further assumptions needed to be applied.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Slovenia** |  |  |  |  |  |
| **Product:** | **Volksbank** | **UniCredit** | **Annual Volume** | **Costs Volksbank** | **Costs UniCredit** |
| Account maintenance (monthly) | € 5.00 | € 12.00 | 12 | € 60.00 | € 144.00 |
| Electronic banking (monthly) | € 8.00 | € 9.00 | 12 | € 96.00 | € 108.00 |
| Incoming domestic payments | € 0.10 | € 0.13 | 4000 | € 400.00 | € 520.00 |
| Outgoing domestic payments | € 0.80 | € 0.80 | 2200 | € 1,760.00 | € 1,760.00 |
| Incoming cross-border payments (SEPA) | € 0.10 | € 0.13 | 40 | € 4.00 | € 5.20 |
| Outgoing cross-border payments (SEPA) | € 0.80 | € 0.50 | 1000 | € 800.00 | € 500.00 |
| Monthly electronic statements | Free of charge | Free of charge | 12 | € 0.00 | € 0.00 |
|  |  |  |  | € **3,120.00** | € **3,037.20** |

1. The Strategic Business Unit controller for the CEE region is the person to whom those entities report [↑](#footnote-ref-1)
2. Data on the current fees was collected from the local controllers, while the offers from the proposed banks ware gathered from Citibank and UniCredit. [↑](#footnote-ref-2)
3. The EUR/BGN exchange rate used for the conversion is 1.9557 (Bloomberg, 24 June 2013) [↑](#footnote-ref-3)
4. The EUR/RON exchange rate used for the conversion is 4.5318 (Bloomberg, 24 June 2013) [↑](#footnote-ref-4)