

SEPA changes and payment process reengineering in Finnish companies. Empirical evidence from six companies

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Abstract

Research objectives and methods

This thesis studies the effects of SEPA (Single Euro Payments Area) on Finnish companies. SEPA is a project of the 27 EU member countries and five other European countries. With SEPA all euro payments will be treated as domestic payments, and the current differentiation between national and cross-border payments will cease. SEPA will bring benefits to companies, but they also have to make some changes in order to become SEPA compliant. The research objective is to find out how companies are preparing for SEPA and if SEPA is an opportunity for companies to reengineer their payment processes.

The thesis includes a literature review of business process reengineering (BPR) as well as an empirical research of SEPA in Finnish companies. Case study research method is used for the research, in which five major Finnish companies and one SME are interviewed. Though the main scope of the research is major companies, one SME was also interviewed to be able to compare SEPA effects in small and large companies.

Findings of the research

The findings of the research were that the companies thought SEPA offered possibilities for gaining benefits through reengineering payment processes. Most of the companies interviewed had though already started to centralize their payments handling and therefore had no need for further BPR because of SEPA. In several interviewed companies payments were centralized to a shared service center. The interviewed major companies usually had had a SEPA project, in which the required SEPA changes to their ERPs were done. Those companies saw SEPA at the moment as an IT project, but also thought that in the future the benefits of SEPA (e.g. centralization of payments and cash collection, consolidating banking connections) could be realized. In the SME interviewed SEPA did not require great changes, and they thought SEPA was something that IT providers should take care of and not companies. SEPA credit transfer was the only SEPA payment instrument all interviewed companies were going to start using, as for example SEPA direct debit was only going to be used in one company.

Key words: SEPA, business process reengineering, BPR, shared service center, IT project, payment instrument, case study

Tiivistelmä

Tutkimuksen tavoitteet ja tutkimusmenetelmät

Tutkimus tarkastelee euromaksualue SEPAn (Single Euro Payments Area) vaikutuksia suomalaisiin yrityksiin. SEPA on EU-maiden, sekä viiden muun eurooppalaisen maan projekti, jonka myötä kaikki euromaksut tulevat olemaan kansallisia maksuja, ja ero ulkomaisten ja kotimaisten maksujen väliltä katoaa. SEPA tuo hyötyjä yrityksille, mutta saavuttaakseen SEPA-valmiudet, yritykset joutuvat myös tekemään muutoksia järjestelmiinsä ja toimintaansa. Tutkimuskysymys on saada selville, kuinka suomalaiset yritykset valmistautuvat SEPAan, sekä onko SEPA heille mahdollisuus saavuttaa etuja uudelleen järjestellemällä maksuprosessejaan.

Tutkielma sisältää kirjallisuuskatsauksen prosessien uudelleenjärjestelystä (eng. business process reengineering, BPR), sekä tapaustutkimuksen kuudesta suomalaisesta yrityksestä. Haastateltaviin yrityksiin lukeutui viisi suuryritystä sekä yksi PK-yritys. Tutkimus keskittyy etupäässä suuryritysten SEPA-vaikutuksiin, mutta PK-yritys otettiin mukaan tutkimukseen antamaan kuvaa siitä, ovatko vaikutukset samankaltaiset suurissa ja pienissä yrityksissä.

Tutkimustulokset

Tutkimuksen tuloksena oli, että yritysten mielestä SEPA tarjosi mahdollisuuden saavuttaa hyötyjä maksuprosesseja uudelleen järjestellessä, mutta yleensä yrityksissä oli aloitettu työt maksuliikenteen keskittämiseksi jo ennen SEPAA. SEPA ei siten ajanut prosessien uudelleenjärjestelyä haastatelluissa yrityksissä yhtä lukuunottamatta. Useat haastatellut yritykset olivat keskittäneet maksujen käsittelyn palvelukeskukseen. Haastatellut yritykset näkivät SEPAn alkuvaiheessa IT-projektina, mutta uskoivat SEPAn myöhemmin tuovan heille hyötyjä. PK-yritys näki SEPAn olevan etupäässä järjestelmätoimittajien, ei yritysten, vastuun. Ainoa SEPA-maksuinstrumentti jota kaikki yritykset aikoivat käyttää oli SEPA-tilisiirto, mutta esimerkiksi SEPA-suoraveloitusta aiottiin käyttää ainoastaan yhdessä tutkimuksen yrityksessä.

Avainsanat: SEPA, prosessien uudelleenjärjestely, BPR, palvelukeskus, IT-projekti, maksuinstrumentti, tapaustutkimus

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List of acronyms

BIC	bank identifier code (SWIFT code)
BPR	business process reengineering
EC	European Commission
ECB	European Central Bank
EPC	European Payments Council
ERP	enterprise resource planning
EU	European Union
IBAN	international bank account number
IS	information system
ISO	International Organization for Standardization
IT	information technology
PSD	Directive on Payment Services
SEPA	Single Euro Payments Area
SME	small and medium enterprises
STP	straight-through processing
SWIFT	Society for Worldwide Interbank Financial Telecommunication
XML	extensible mark-up language (file format)

1 INTRODUCTION

This thesis discusses the topics of the Single Euro Payments Area (SEPA) and business process reengineering (BPR). SEPA preparations began in 2002, when banks in the European Union (EU) established the European Payments Council (EPC), which would become the organization to drive the establishment of SEPA. The reason behind driving SEPA was that banks saw that changes were needed, in order to achieve a better integrated market, which would foster competition and drive innovation (European Central Bank, 2009). An integrated market could be achieved by establishing common payment standards for the whole SEPA area. Before SEPA all European countries had their own national solutions in banking and payments, but after SEPA there will be a common solution with additional optional services. Old payment instruments and standards will be replaced with common ones. The cross-border complexity and risk of payments will disappear, as with SEPA all payments within the area will be domestic payments and not cross-border payments anymore (European Payments Council, 2009a).

SEPA will affect banks, consumers and companies in the SEPA area. For consumers and companies SEPA offers the possibility of only having one bank account in the whole area. The bank accounts numbers will be also changing to the ISO standard IBAN (international bank account number) format, and another ISO standard, the BIC (bank identifier code, SWIFT code), will be used as a bank identifier. Consumers can benefit from making card payments with only one card in the SEPA area. The price of cross-border credit transfers will be reduced, because they will be treated as domestic payments. For banks SEPA is said to increase their business opportunities, as they will be able to compete in the SEPA area.

Nevertheless, they will also lose some income because of the reduced price of cross-border payments.

1.1 Motivation for the research

This focus of this thesis is studying SEPA changes and possibilities in Finnish companies. SEPA causes changes to European banks, companies and consumers, but for companies SEPA is a project initiated by another party, but for which companies have to prepare in order to be able to continue doing business. This is why studying SEPA in companies is especially interesting, as they cannot choose whether or not to join SEPA. The organizations behind SEPA have clear argumentation in favour of SEPA, but it is important to study if the arguments actually are true and what opportunities SEPA really offers companies.

SEPA has not yet been much discussed in research literature and because of that there is room for new research. Some research has been done on companies preparing for SEPA (e.g. Deloitte, 2009), but in-depth case study of companies is missing. This thesis aims at filling that gap by doing case study research in Finnish companies.

1.2 Research question

SEPA causes investments for companies in terms of updating their enterprise resource planning (ERP) systems according to SEPA requirements, but it can also offer possibilities, if companies are willing to take full advantage of those opportunities. The purpose of this thesis is therefore to find out how major Finnish companies see SEPA, and what kind of changes companies do because of SEPA, especially how they see the possibilities that SEPA might

offers for them. Treating SEPA as something more than an IT (information technology) project and a compliance matter, require some business process reengineering to gain full benefits of the SEPA possibilities. The research question is the following:

What kind of changes does SEPA cause in companies? Is SEPA an opportunity for companies to reengineer their payment processes to gain benefits?

1.3 Scope and structure of the thesis

This thesis focuses on how SEPA affects companies, banks and consumers are not in the scope of the thesis. IT-providers were not interviewed either, because for them SEPA means new business opportunities, because companies have to make changes into the systems in order to be SEPA compliant. Studying how they see SEPA would not be comparable with other companies, for whom SEPA might just be a big investment. The companies interviewed in the case study are major Finnish companies except for one SME (small and medium enterprises). The major companies interviewed had to have business operations in other European countries, because only then SEPA effects could be well seen. One SME was also interviewed to give an idea of what SEPA means for smaller companies, as it might mean something different than for major companies.

The structure of these theses is the following. Chapter 2 contains a literature review of the theoretical background, business process reengineering, of the thesis. The third chapter explains the concept of SEPA, the SEPA payment instruments, the benefits, and how it affects companies. Chapter 4 explains the methodology used for the empirical research. The empirical part, six case

studies of Finnish companies, can be found in chapter 5. The last chapter gives the findings of the cases studies and the conclusions of the research.

2 THEORETICAL BACKGROUND

The theoretical background for this thesis is business process reengineering (BPR). This chapter is a literature review of the concept of business process reengineering as well as the role of information technology (IT) in enabling it.

2.1 Business process reengineering

The concept of business process reengineering or business process redesign was introduced in 1990. Business process reengineering is a tool used for transforming organizations. Hammer (1990) suggested that the way for companies to eliminate costs and time is possible only through a radical process simplification instead of just speeding them up. BPR has been wildly studied and discussed in research literature for two decades. Hammer and Champy's (1993) definition of BPR is

"..the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service, and speed" (p.32).

There are four key words in the definition and they describe the nature of BPR. When doing BPR, companies must think about the *fundamental* things related to their businesses, such as why we do what we do, and why we do it the way we do it. Looking at these very basic question force people to question the rules and assumptions in the way they do business. Another important element in BPR is that the changes in it are *radical*. The changes are not done on a superficial level, but rather by abandoning the old way of doing and reinventing something new, not just improving the old. BPR is

done when a company is in the need of *dramatic* change, not when quality or speed needs to be improved by 10 percent. Marginal changes do not need blowing up the old and coming up with new ways. The fourth key word is *process*, because people and changes should be process oriented. This is often difficult for managers, who are more task- than process-oriented. (Hammer and Champy, 1993)

2.1.1 The definition of process

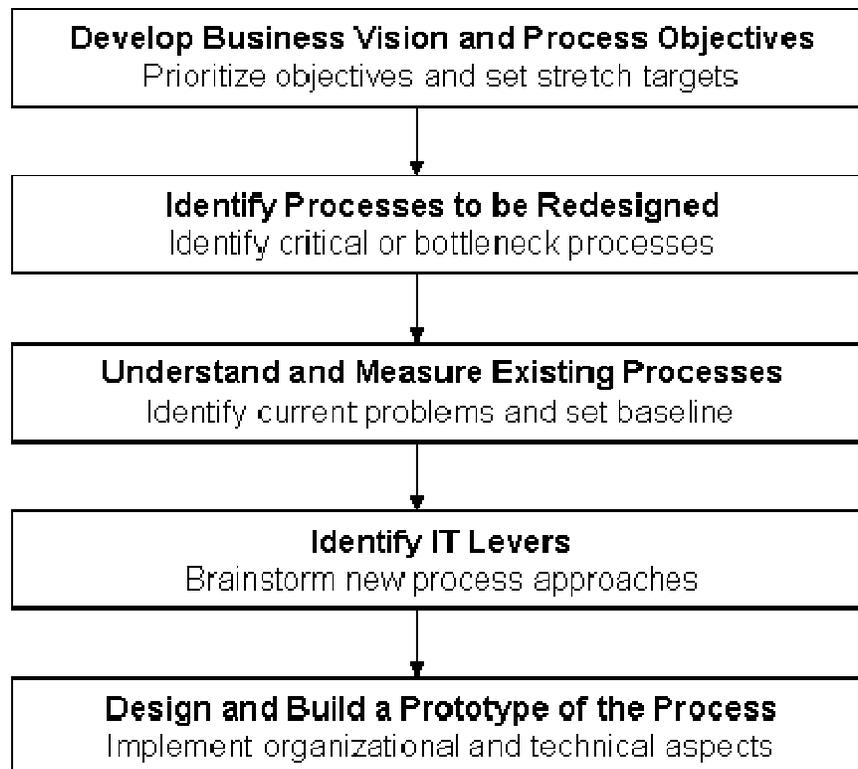
In BRP the redesigning of the organization starts from the processes. Processes can be defined as “a set of logically related tasks performed to achieve a defined business outcome” (Davenport & Short, 1990, p.12). Processes have two important characteristics: Processes have defined business outcomes, and the outcomes have recipients. That means that processes have customers, who can be either internal or external to the firm. The other characteristic is that they cross organizational boundaries as they occur across or between organizational functions. They are also usually not dependent of the organizational structure. (Davenport & Short, 1990)

Hammer (2001) sees that traditional organizations are not friendly to processes, because they are structured around organizations. The departments focus only on their own task, and they do not know that other departments are doing the same tasks too. In this kind of situation processes are broken into disconnected pieces and nobody can see the whole end-to-end process and make it work smoothly. Without a process focus it is difficult to consistently deliver the performance level that customers want, and companies face problems with overheads, delays and errors.

2.1.2 Five steps in process redesign

Davenport & Short (1990) explain what BPR is through a five step plan, which is illustrated in Figure 2.1. BPR starts with developing a business vision and thinking about what are the process objectives and targets. They find that BPR is not about rationalizing processes, but about redesigning entire processes with a clear business vision in mind. BPR continues with identifying the processes to be redesigned, especially those that are critical or bottleneck processes. Understanding and measuring current processes is important in order to be able to set the baseline for BPR. IT levers need to be indentified to be able to discover new process approaches. Finally, a new process is designed and a prototype built. Technical and organizational aspects are also implemented.

Figure 2.1 Five steps in process redesign



Source: Adapted from Davenport & Short (1990)

2.1.3 Strategic perspective of BPR

Wu (2002) sees that BPR includes a strategic perspective, which means that when doing BPR, one has to be aware of the corporate strategies. That is why the first step in doing BPR is identifying corporate strategies. The competitive strategies towards certain targets (e.g. customers or suppliers) must be identified. The next step is selecting strategic paths for BPR with IT application. The critical characteristics in a process that can be redesigned using IT applications, are analyzed. The last step is implementing BPR. BPR implementation strategies will be explained in more detail later.

The relationship between BPR, business strategic planning and strategic information systems (IS) planning has been studied also by Earl, Sampler & Sort (1995). They found that there are four different BPR strategies: *engineering strategy*, *systems strategy*, *bureaucratic strategy* and *ecological strategy*. *Engineering strategy* can be found in an improvement project. The project is driven by an operational problem, where BPR is a part of the needed business change. Line managers from different functional teams design new integrated and cross-functional and cross-entity production, logistics or similar. In the *systems strategy*, IS planning has an important role. BPR opportunities are identified through IS planning, and in investment decisions BPR projects are favoured. These kind of projects are lead by managers who have performance responsibility for the certain process and work closely with the IS function.

In Earl et al.'s (1995) *bureaucratic strategy* formal strategic planning is used to promote the idea of investing in process capabilities. These process capabilities are one element of competitive strategy at the strategic business unit level. Typically business strategy making has to compromise between product-market-customer decisions and process decisions. The focus of a

BPR project is usually on a breakthrough activity on the primary value chain and therefore can have a high customer impact. The *ecological strategy* differs from the other three strategy types by being more of a holistic, cultural approach. It aims at raising process consciousness and establishes a new way of managerial decision making. The point in that is that if managerial decision making processes are redesigned and the new ones engage all levels of the organization, then BPR initiatives will be more successful.

2.1.4 Implementation strategies

A widely discussed area of BPR is the implementation strategies. Jarvenpaa & Stoddard (1998) find that a BPR project includes two important phases: designing the change (the blueprint) and the implementation of those plans. In their study of 15 business projects they found that, contradictory to previous BPR literature, not all change was radical. Reengineering was found to be *revolutionary* in the design phase and *evolutionary* (non-radical) during the implementation phase. The reasons behind these different approaches were that during design period, organizations were more willing to do radical changes, because design occurs quickly, is self-contained and has a specific end point. In the implementation phase, on the other hand, organizations were unwilling to use the revolutionary approach, because of the costs and risks related to the financial, organizational and human aspects of radical change. The conclusions of in what circumstances evolutionary or revolutionary reengineering is used can be found in Figure 2.2.

Figure 2.2 Alternative change theories

Element	Evolutionary Change	Revolutionary Change
Leadership	Insiders	Outsiders
Outside resources	Few, if any, consultants	Consultant led initiative
Physical separation	No, part-time team members	Yes, Greenfield site
Financial crisis	None	Poor performance
Rigid milestones	Flexible milestones	Firm milestones
New reward/compensation	No change	New scheme
Simultaneous IT/process change	Process first	Simultaneous process and IT

Source: Adapted from Jarvenpaa & Stoddard (1998)

The findings of the revolutionary vs. evolutionary implementation tactics study by Jarvenpaa & Stoddard (1998) suggest that management should assess the implementation tactics when planning BPR. Figure 2.3 illustrates the different implementation tactics. If the organization is in a crisis, revolutionary approach is needed. If there is time to do evolutionary changes, that approach can allow the organization to do a better manageable and measured change. Also, only one of the phases, design, needs to be revolutionary. Breakthrough designs provide a long-term change roadmap for organizations, and are good for keeping the motivation high better than more incremental plans. However, it is possible to choose a more moderate approach in implementing the changes and do some compromises, while still gaining effective results. Another important aspect is that revolutionary changes are costly and few organizations can afford them at once.

Figure 2.3 Approaches to reengineering implementation

Implementation Tactics		
Approach	Evolutionary	Revolutionary
Incremental improvement	Quality, not reengineering Anticipated strategic crisis, no operational crisis Limited funds Downwardly managed project risk	Don't do
Radical breakthrough	Preferred approach Anticipated strategic crisis is translated into a cumulative series of operational crises The change program is self-funding Organizational culture of continual improvement	Use only in special cases A true performance crisis exist; a daily battle for survival A small organization unit Deep pockets Ability to "borrow" and replant solutions from outside

Source: Adapted from Jarvenpaa & Stoddard (1998)

2.1.5 BPR and organizational change

BPR includes more aspects than just changing some processes of an organization. According to Kettinger, Teng & Guha (1997) BPR is a form of organizational change, and must therefore think beyond only changing processes, unlike Hammer's BPR approach suggested. Kettinger et al. (1997) explain that BPR also changes for example management styles, people's skills and jobs, culture, information technology and organizational structures. Because of these multiple changes, BPR is more of a continuum of approaches to process change. BPR projects do have some commonalities, but they differ in the magnitude of planned change, and different project characteristics call for different methodologies and technologies.

Because of the nature reengineering projects, change management should also be a part of the project. Lai & Mahapatra (2004) argue that having a change manager with strong IT background can enhance the change

associated with BPR. The reason for this is that the change manager can use advanced IT effectively in implementing change management strategies.

2.1.6 BPR's critical success factors

Many researchers have identified different critical success factors for BPR. Ahadi (2004) divides the success factors into process redesign and change management. The success factors of process redesign are success factors of a process and of project team management, as well as IT-related factors. Change management includes people-oriented factors, managerial factors and organizational factors. Management commitment was found to be the most critical success factor, followed by education, training and team work in a study by Herzog, Polajnar & Tonchia (2007). Cheng & Chiu (2008) explain that management commitment is crucial, because employees need management's full support to drive change. Once a BPR project receives management support, it is less likely that people will resist the change, as it would be seen as acting against the management or even the company. Communicating the change is important though, so that people know how the change will affect them and they can embrace the new challenges.

Lai & Mahapatra (2004) studied the role of IT department in BPR project success and found that support of top information system management, the existence of technology champion and the management of resistance to change were critical success factors for BPR. Top IS management support actions include improving the project's visibility, securing funds for the IT resources, aligning IS directions with the business mission, and gaining IS staff commitment and support. Technology champions were found to be key actors in re-engineering efforts, and they were involved especially in the initiation of BPR, rather than in the implementation of BPR. Change

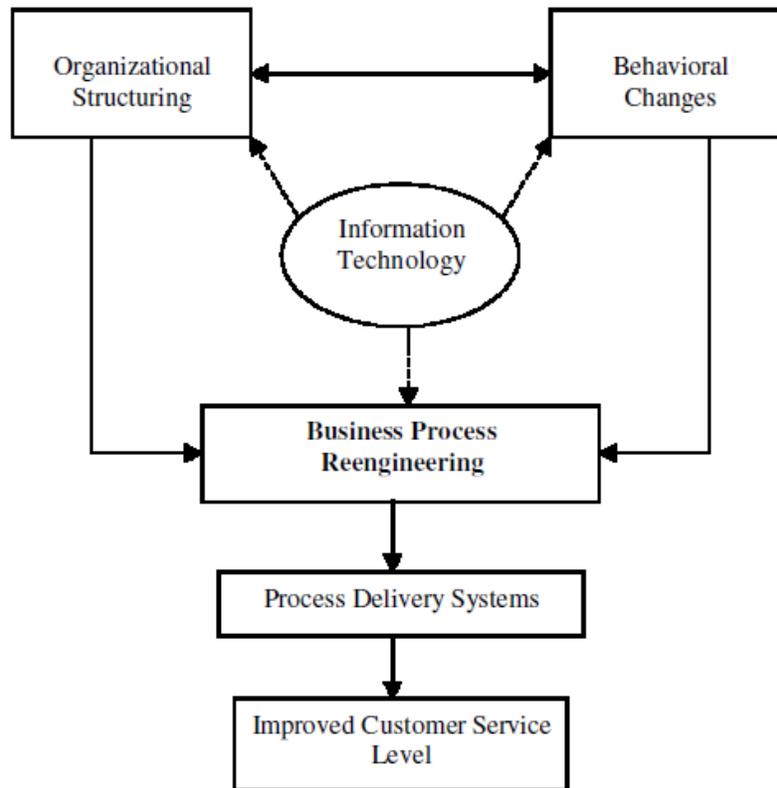
management was needed to reduce uncertainty and confusion associated with BPR. Managing the resistance to change is especially vital, and management should view the dynamics of BPR as a political process, because resistance to change is often caused by the conflicting interests of different user groups. Managing the perceptions of employees that are affected by the re-engineering is important.

2.2 Role of IT in Business Process Reengineering

Information technology has an important role in business process reengineering. When used together, BPR and IT can create more flexible and communication-based work capacity. IT can be more than a useful tool for BPR, fundamentally reshaping the way business is done and enabling the process design. (Attaran, 2003)

Business process reengineering means organizational restructuring, and it needs elements from different parts of the organization. In reengineering processes, the internal and external process capabilities, like product development, production, distribution, suppliers and markets, need to be integrated, and IT is an important element in enabling the integration (see Figure 2.4). IT can be applied to customer administration cycle, product design cycle, and human resource development cycle. Some motivational changes can appear with changing processes, and they should also be taken into account, instead of only technological changes. (Gunasekaran & Nath, 1997)

Figure 2.4 A conceptual model for BPR



Source: Gunasekaran & Kobu (2002)

2.2.1 IT infrastructure capabilities

IT infrastructure capabilities can have an effect on the speed and the nature of the process change. In their study on the relationship between IT infrastructure and business process change, Broadbent & Weill (1999) found that companies with a rich set of IT infrastructure capabilities, were able to do major changes to their business processes in a relative short period of time. A rich infrastructure includes boundary-crossing services across multiple business units. Doing less dramatic changes and using process simplification, was typical for companies with more modest IT infrastructure capabilities.

IT capabilities should be considered before process design, not only after a process has been designed. It is important to consider IT in the design phase, because it can create new process design options, rather than just supporting processes (Davenport & Short, 1990). Even though IT might not be absolutely necessary for BPR, it is important to understand that IT is an important enabler in process change (Teng et al. 1994). IT enables BPR by providing necessary tools for analyzing, communicating and designing business processes (Ahadi, 2004).

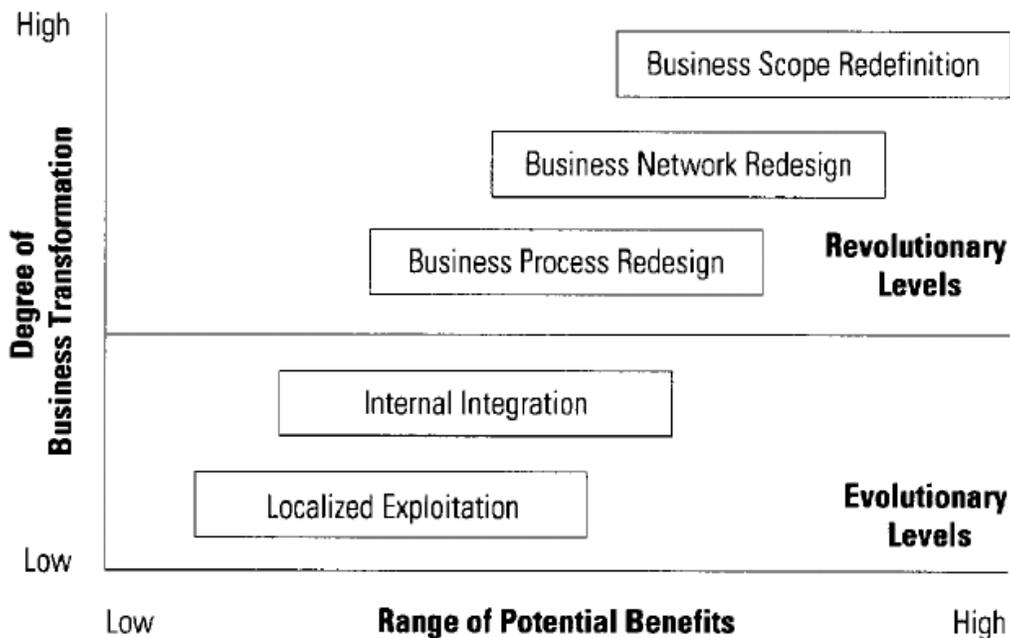
2.2.2 IT in business transformation

IT can have different kinds of impact on process change. Venkatraman (1994) proposes a hierarchy of five levels of IT-enabled business transformation. The higher the level of business transformation is, the higher the potential benefits are, but so is the transformation. That is why an organization should first identify the transformational level, in which the benefits are in line with the potential efforts and costs of the organizational transformation. The levels are therefore not evolutionary stages, although moving to a higher level might be necessary because of competitive pressures or the need to deliver higher value to the market.

The first level in Venkatrama's (1994) business transformation model is *localized exploitation* (see Figure 2.5). On that level decisions to deploy systems are decentralized to appropriate functional managers. This results to minimal learning of the limitations of such initiatives. Managers also typically initiate these systems to answer to operational problems. On this level no single IT application can be strategic. The *internal integration* level is a more systematic approach for trying to leverage IT capabilities through a whole business process. There are two kinds of integration on this level: technical

interconnectivity, which means interconnectivity of different information systems through a common IT platform and business process interdependence, which includes dealing with the interdependence of organizational roles across functional lines.

Figure 2.5 Five levels of IT-enabled business transformation



Source: Venkatraman (1994)

The *business process redesign* level suggests that the benefits from IT functionality are not realized from the current processes. IT functionality can alter some of the principles of BPR. Like on the first two levels, on business process redesign level business transformation happens within a single organization. The next two levels, *business network design* and *business scope redefinition*, companies connect to external business, such as suppliers and buyers. On *Business network design* level companies connects different business partners through a common IT platform. On *business scope*

redefinition level IT plays a role in defining the business scope and influences the business relationships with the extended business network.

2.2.3 IT barriers and project failures

As useful as IT can be in process redesigning, it can also be one of the greatest barriers for BPR. Research shows that many BPR initiatives have been stopped, because reengineering would have also needed IS redesign. Resistance from IS personnel has more often been a failure than an enabler in BPR implementation. The mindset of change in the organization is important as is visionary leadership and top management support (Attaran, 2004).

BPR projects are not guaranteed to bring success to a company. In fact it is said that 70% of BPR projects fail. There are many things that can go wrong. The biggest obstacles can be summarized as lack of sustained management commitment and leadership, unrealistic scope and expectations and resistance to change (Malhotra, 1998). When BPR projects succeed, they can have a great effect on a firm's productivity, though. Ozcelik (2010) studied performance effects of BPR projects both during and after implementation, and found that firm performance was unchanged during the implementation, but that the firm performance significantly improved after the implementation period. The results also suggested that functionally focused BPR projects contributed more to performance than projects with a cross-functional scope. The result suggests that risk of BPR project failure increases beyond a certain scope.

Grant (2002) found that the definition of BPR is often too narrow, because it focuses on processes, and ignores other important factors, like organizational structure, people, communication and technology. This can lead to developers taking on a too narrow view on the organizational reality, which is harmful, because it also affects their approach to work. Wu (2002) adds that failures are often caused by BPR being viewed at an operational or tactical, rather than strategic level.

3 SINGLE EURO PAYMENTS AREA

This chapter explains what the Single Euro Payments Area (SEPA) is and tells the background of SEPA. The SEPA payment transactions and instruments are also explained as well as how SEPA affects companies, and how companies need to prepare for it.

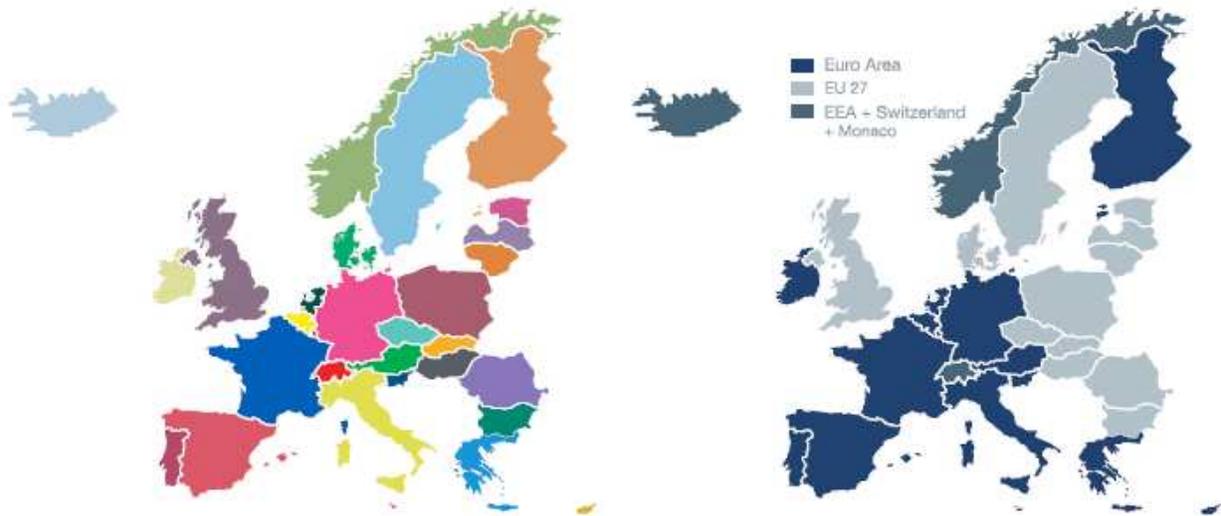
3.1 Background of SEPA

After the introduction of the euro in 2000, there have been hopes for moving towards a financial area, where no transaction costs would occur between cross-border payments, because it was expected that cross-border transactions would significantly increase with the euro. Cross-border payment transactions were costly for consumers and companies, who had to pay banking fees for international transfers and to have a separate bank account in each country they operated in. There was a clear need for a new payment system that would make the euro area a real one currency area without big operating costs. (Wandhöfer, 2008)

The SEPA project was initiated by European banks, because there was a need for standardizing the euro payment system. If banks had not initiated the project, EU legislation would have stepped in and banks would not have been the ones making the decisions. Because of that, SEPA is not a market-driven process, but an integration initiative, which aims at generating macro-economical benefits and technological innovation (European Payments Council, 2009a). Replacing national payment systems with SEPA is estimated to save bank customers up to €123 billion cumulative over six years (European Payments Council, 2009c). SEPA involves the 27 European Union (EU) member countries as well as Iceland, Liechtenstein, Norway,

Switzerland and Monaco (European Payments Council, 2009a). An illustration of Europe before and after SEPA can be seen in Figure 3.1.

Figure 3.1 Europe pre-SEPA (left) and after-SEPA (right)



Source: European Payments Council (2009a)

The legal basis for SEPA is provided through the Directive on Payment Services (PSD), which is a regulatory initiative from the European Commission (EC). PSD aims at establishing a comprehensive set of rules applicable to all payment services in the EU. The deadline for implementing the PSD into national legislation was in November 2009 (European Commission, n.d.). The PSD standardizes information requirements, rights and obligations of payment service providers and users. The PSD is divided into four Titles covering scope and definitions (Title I), the regulation of payment institutions (Title II), conditions for transparency and information for payment services (Title III), and rights and obligations of users and providers of payment services (Title IV) (Wandhöfer, 2008). Some SEPA changes are results of the PSD legislation and not created by banks.

When designing SEPA began, the banking industry in the EU formed the European Payment Council (EPC). EPC's role in the project is to define the new rules and procedures for euro payments. Communities outside the euro area will also be able to benefit from the single payments area. Other institution involved in the project is the Eurosystem, including the European Central Bank (ECB) and national central banks of the euro area. The central banks are responsible for the smooth operation of the payment systems in the euro area (European Central Bank, 2009). EC's role is to support SEPA and raising the political profile of SEPA. ECB has a role in supporting and observing the delivery of SEPA (Commission of the European Communities, 2009).

SEPA consists of many parts that make the single currency area possible. European Central Bank (2009) defines SEPA as:

- the single currency (euro)
- a single set of euro payment instruments (credit transfers, direct debits, card payments)
- processing infrastructures for euro payments
- common technical standards
- common business practices
- harmonised legal basis
- ongoing development of new customer services.

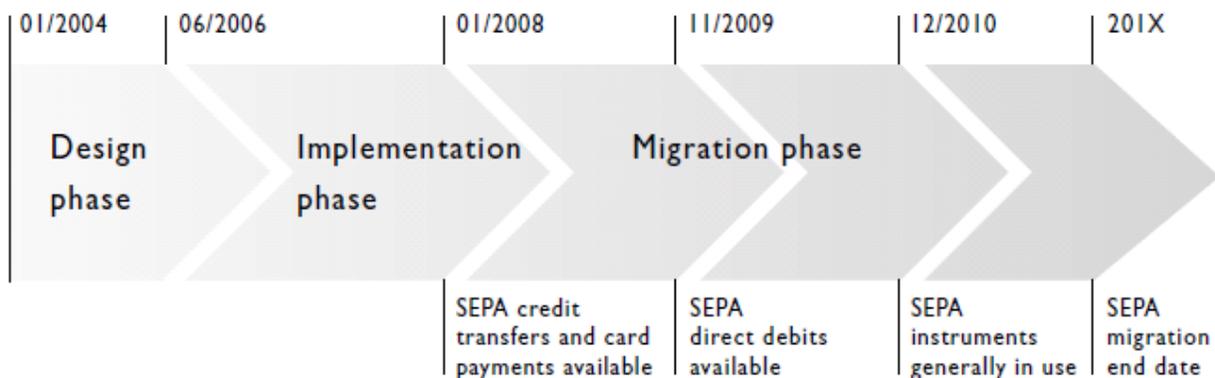
3.2 SEPA project

The SEPA project is divided into three parts: *the design phase*, *the implementation phase* and *the migration phase* (see Figure 3.2). The *design phase* began in 2004. In the first phase the new credit transfers, direct debt

schemes, the frameworks for cards and clearing as well as settlement infrastructures were designed. The needed standards were also developed and security requirements were specified.

The implementation phase lasted from mid-2006 to end of 2007. In this second phase the preparations for the rollout of the new SEPA instruments, standards and infrastructures were made. The national implementation bodies monitored the stakeholders' preparations for the rollout in each euro country. In the final *migration phase*, national payment schemes coexist with the new SEPA schemes, and customers can use both of them. In this phase the gradual market-driven migration of the critical mass of transactions should happen by the end of 2010. After 2010 the current national credit transfer and direct debit schemes for sending and receiving euro payments will no longer be available for customers. (European Central Bank, 2009)

Figure 3.2 The SEPA timeline



Source: European Central Bank (2009)

SEPA is a project that introduces many changes to the payment environment and the scope of the project is large. European Union Financials Committee

(2007) explain that SEPA is a project, which in terms of scope and complexity can be compared with the introduction of the euro. Even though SEPA is a project; it is only one element in the aim of moving towards standardized solutions in several areas, like e-invoicing and mobile payment services (Payment Council, 2009a). Therefore in understanding what SEPA is aiming at, one should keep the big picture in mind.

3.3 SEPA payment transactions and instruments

SEPA introduces common payments instruments to the market, and uses ISO standards in the payments, to make the payment transactions as smooth as possible. A payment transaction is an act, which is initiated by either the payer or the payee, and includes placing, transferring or withdrawing funds. A so called framework contract decides the terms according to which the transaction will be carried out. The payment transaction involves moving funds between bank accounts (European Payments Council, 2008a). The payment initiation, processing and reconciliation used in SEPA are based on straight-through processing (STP). STP means that the whole payment transactions can be done electronically without manual intervention.

The SEPA payment transactions are limited to euro payments within SEPA countries. The credit institutions executing the payment transactions must have formally adhered to the SEPA credit transfer scheme (European Payments Council, 2009a). With SEPA new payment services will be introduced, including SEPA credit transfer, SEPA direct debit and SEPA card and cash payments. SEPA Credit transfer and SEPA direct debit will be explained in this chapter. Card and cash payments are also SEPA payment instruments, but they are mainly used by consumers and therefore not relevant for this thesis, as only companies are in the research scope.

3.3.1 Four corner model

Understanding how SEPA credit transfers and direct debits work, requires knowledge of the four corner model. The four corner model describes how information is moved between companies and banks. In the model there are four actors: the payer, the payer's bank, the payee and the payee's bank, between whom funds are transferred. These actors can be seen in both Figure 3.3 (as originators and beneficiaries) and in Figure 3.4 (as debtors and creditors).

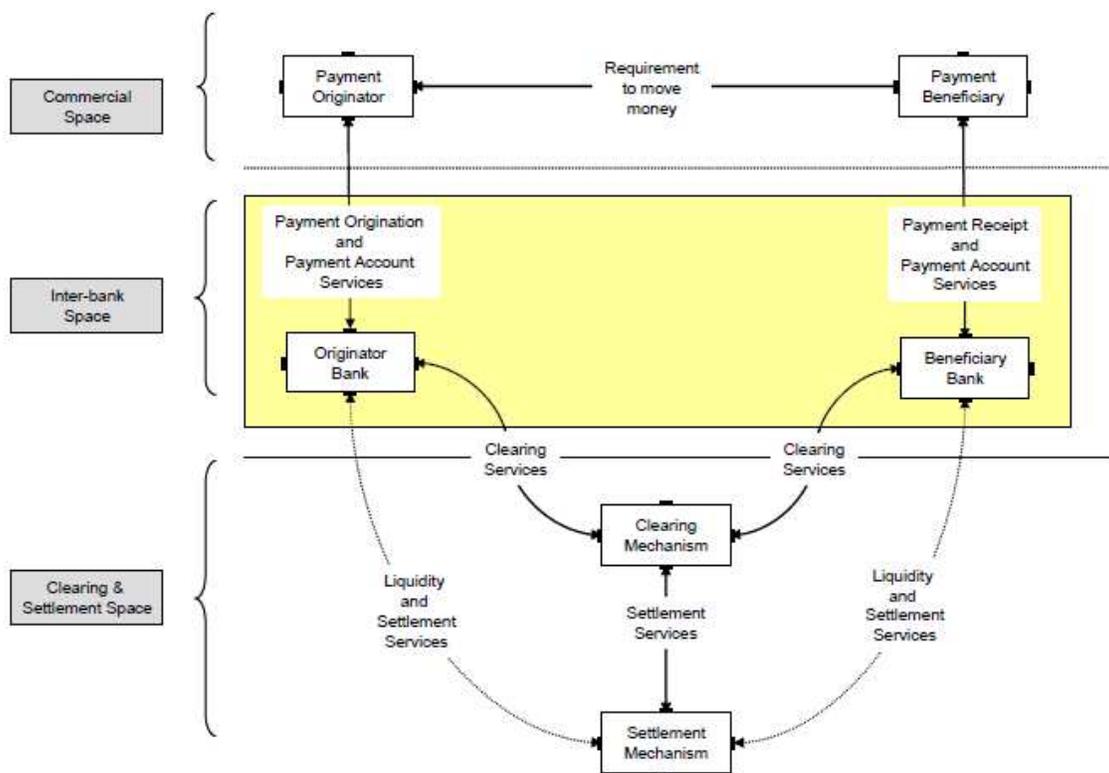
The transfer process begins when the payer and the payee agree that an amount of funds will be transferred. They then select a payment instrument, specify the payment details and one of them gives the instructions to the bank. Depending on whom gives the instructions to the bank, in the process will be used either credit instruments (credit transfers) or debit pull instruments (cheques, direct debits, card payments). (Leinonen, 2008)

3.3.2 SEPA credit transfer

In the SEPA credit transfer process (see Figure 3.3) the payer (originator) makes a credit transfer instruction and forwards it to the payer's bank. The bank checks the instruction and rejects incorrect instructions. The payer's account gets debited and the credit is transferred to the payee's (beneficiary's) bank, where the payee gets credited (European Payments Council, 2009a). The clearing and settlement mechanisms between the banks correctly exchange information and safely exchange value. These mechanisms are needed in order to move money between banks (European Payments Council, 2009b).

SEPA credit transfer offers benefits to companies making and receiving payments. The benefits of SEPA credit transfers are: functionality, cost efficiency, ease of use and STP. Customers involved in a credit transfer can only be charged by their own bank. In a structured creditor reference information of 140 characters on transfers can be remitted to a business partner without alternation. The date when the transferred money is available can be provided with certainty. Rejects and returns are automated in transfers, and there is also a process for recalling funds that are transferred by mistake. It is also possible to make both single and bulk payments, in which the payer's account is debited once and different payees' accounts credited. European Payments Council (2009a)

Figure 3.3 SEPA credit transfer overview



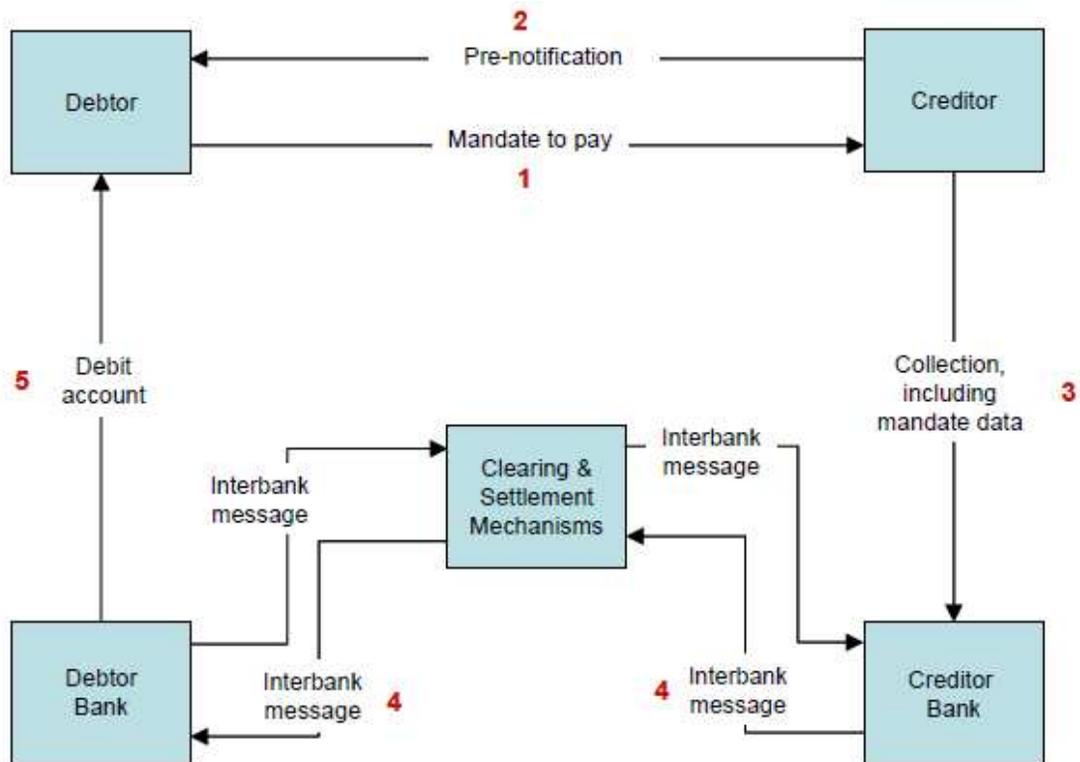
Source: European Payments Council (2009b)

The bank-to-bank SEPA credit transfers and direct debits will be done in the ISO20022 XML data format. This is mandatory for bank-to-bank, but for company-to-bank the use of XML format is voluntary, although recommended. Banks may offer processing solutions and continue to accept clients' existing payment formats and then convert them to SEPA compliant XML. Keeping different data formats means that slightly different information is provided to bank, which hinders payments and collections reconciliation. Switching to XML format requires either making changes to a company's ERP or using a converter to convert the data into XML format. This however gives companies greater bank independence and the ability to implement more automated processes because of the more consistent information. In the long run the XML standard may be better supported. (Barbas, 2009)

3.3.3 SEPA direct debit

SEPA direct debit is the first scheme, which creates a payment instrument that can be used for collections throughout the SEPA area and over national borders. In the direct debit transaction a payee (creditor) requests money from a payer (debtor), and with the payer's prior approval credits it to himself. The payer signs a mandate to authorize the payee to collect the payment, and allows his bank to make the transaction. The mandate can be either in paper or in electronic form. The mandate expires 36 months after the last initiated direct debit. Payers can also instruct their banks on not to accept any direct debts to be drawn from their accounts (European Payments Council, 2009a). Figure 3.4 describes how SEPA direct debit works.

Figure 3.4 SEPA direct debit scheme relationship model



Source: Westerhaus (2007)

SEPA direct debit applies in the same area and way as SEPA credit transfer, and has the same requirements for credit institutions. The benefits of SEPA direct debit are for companies quite similar as the benefits of SEPA credit transfer: direct debits can be done easily and safely cross national borders. One additional benefit with direct debit is the possibility of using e-mandates, which support the overall goal of moving from paper to electronic features.

3.3.4 Structured creditor reference

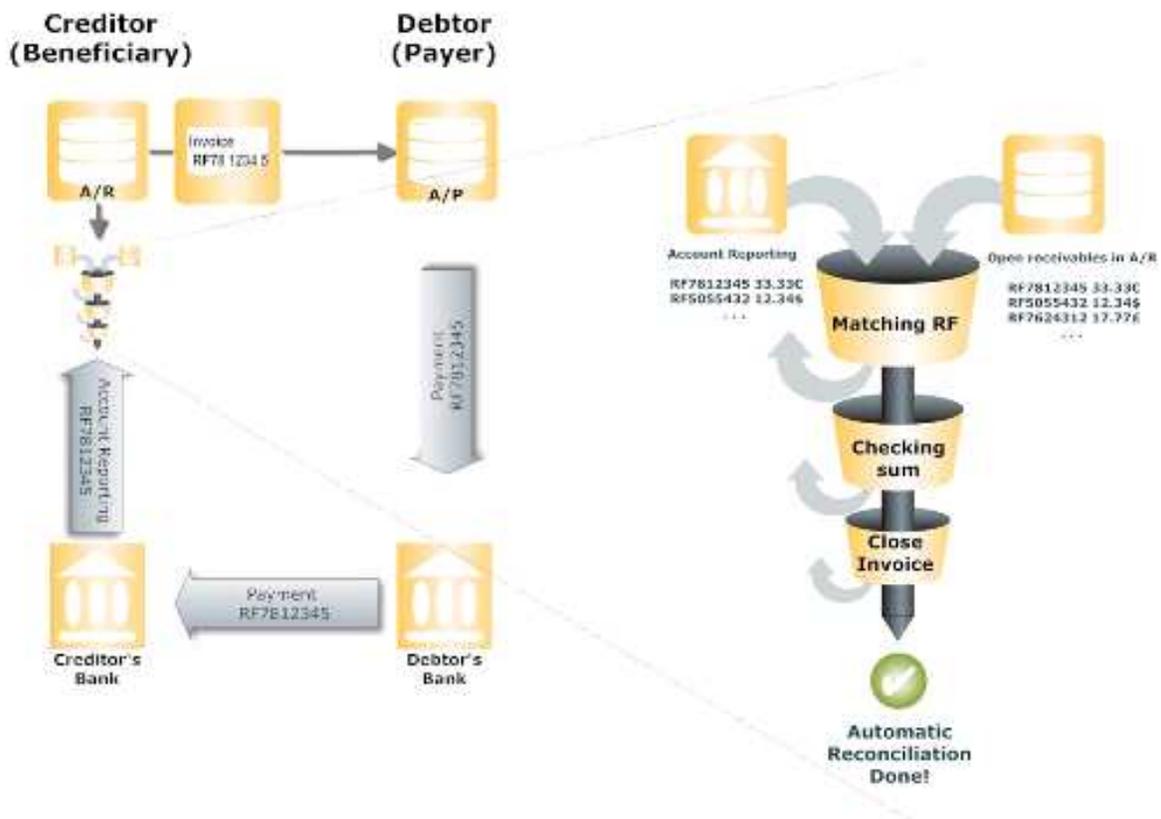
An ISO standard for creditor reference can be used in SEPA credit transfers and direct debits to transfer information between payer and payee. Similar

creditor references have been in use earlier, like in Finland for example, and they have been proven to be efficient and allowing a high percentage of STP reconciliation.

The structured creditor reference enables regular billing parties to identify and reconcile invoices with the corresponding payments, done through either a credit transfer or a direct debit, also in cross-border payments. In SEPA credit transfer the creditor reference will be issued by the invoicing party (the beneficiary), and sent to the payer (debtor) as part of the invoice. The reference is then checked by the payer's bank or ERP, and forwarded to the invoicing party's bank. The bank then forwards it to the beneficiary, and it is reconciled by the beneficiary with the receivable identified through the creditor reference (European Payments Council, 2008b). Figure 3.5 explains how the structured creditor reference enables automatic reconciliation.

The structured creditor reference does not force existing national references to be withdrawn from the market, but the European Payments Council (2008b) sees, that the ISO standard offers the possibility of having a SEPA-wide application. The adoption of the creditor reference depends, however, on the invoicing parties of large amounts of invoices adopting it.

Figure 3.5 Structured creditor reference



Source: JKN Consulting (n.d.)

3.4 SEPA and companies

The SEPA changes will affect not only consumers and banks, but companies in the SEPA area as well. Early on in the SEPA project there were worries about the lack of involvement from corporations (European Union Financials Committee, 2007) as SEPA might have been seen as only a project involving banks. With SEPA the payment infrastructure will be a network of banks, companies and customers and involvement from corporations is also needed in shaping the payment schemes and banking services that will affect companies (Poutiainen, 2008).

3.4.1 SEPA benefits for companies

The implementation of SEPA can offer many kinds of benefits for companies. As mentioned earlier, SEPA credit transfer and direct debit can make funds transfers easier and more efficient, but there are several other benefits that can affect a company in a larger scale. The main benefits for companies are the following (European Payments Council, 2009a; European Central Bank., n.d.):

- SEPA opens up new opportunities in doing business in foreign markets with the help of standardized payment infrastructures. Companies will be able to handle all their payments within the euro area from one bank account using SEPA payment instruments. Having payment and liquidity management in one location saves costs and time
- the rationalization of the SEPA data format, the XML format, decreases the IT costs of maintaining different national payment formats
- payment handlings will be simplified with incoming and outgoing payments being in the same format
- the complexities related to settlement periods and exception processes will be reduced with the introduction of uniform European standards
- reconciliation of payables and receivables is streamlined through the adoption of new standards, like the structured creditor reference, which will be carried out from the originator to the beneficiary
- The SEPA data formats of credit transfer and direct debit are updated annually reflecting customer needs
- with SEPA value added services, like e-invoicing and e-reconciliation will be easier to use cross-border, as the payment formats will be the same and companies can therefore benefit from end-to-end STP.

3.4.2 Approaches to SEPA

Corporations cannot decide whether or not to join SEPA, but they can decide on how wide changes they will do because of it. Barbas (2009) sees that companies can decide, how much of their processes and systems they want to change, and if they will treat SEPA as a compliance matter or a strategic opportunity. For every company, becoming SEPA compliant is the minimum level of involvement. Becoming SEPA compliant, means for a company adapting the SEPA standards to their Enterprise Resource Planning (ERP) systems and banking systems. This can be anything between software updates to completely reengineering payment processes. Barbas (2009) stresses that simply adapting the SEPA standards to ERP systems does not necessary mean that a company can get all the possible benefits that SEPA has to offer, like improving business efficiency and reducing the operating costs of payments.

There are three ways a company can approach the SEPA changes, according to Fitzgerald (2008). Firstly, a company can handle SEPA as a short-term compliance issue, which mean that compliance is seen as a sunk cost and no product differentiation is made. Secondly, companies can play the wait-and-see game and then sprint and catch up the other companies. Thirdly, there is the possibility of taking a long-term strategic view, where SEPA compliance is treated as the first part of a bigger market-focused project.

It is inevitable that a company has to makes some changes in preparing for SEPA, to be able to continue making payments when old systems are not in use anymore. European Payment Council (2009a) sees that every company should consider which strategy to take towards SEPA: to make the compliance requirements, whether to outsource all or some payment processes or whether to upgrade existing payment architectures. One

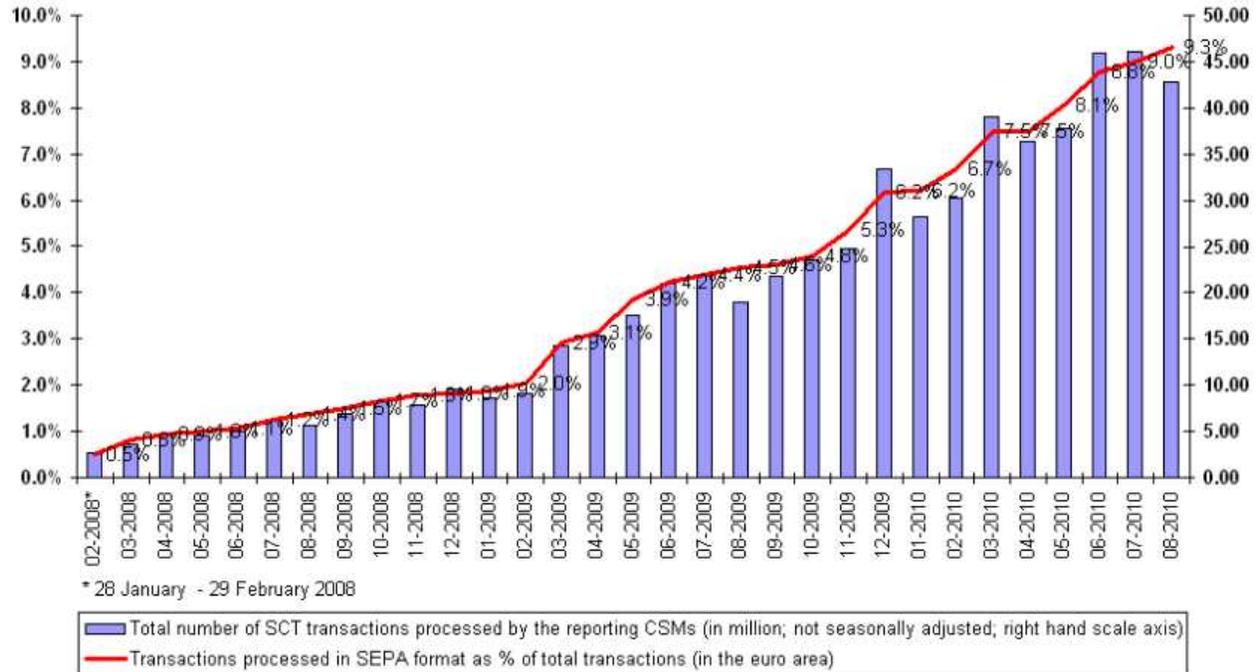
possibility is also to look at SEPA as one element in the process in migrating from paper-based procedures towards electronic information exchange. Whichever strategy is chosen, the impact of SEPA on existing internal processes, IT platforms and delivery channels need to be considered, because business has to either modify to the SEPA requirements, or develop new IT platforms and delivery channels. SEPA is a good opportunity for companies to change old infrastructures and update systems. For companies to be able to take full advantage of SEPA, it is important that they find a business case behind SEPA and see what kind of opportunities it brings them.

3.4.3 SEPA readiness

European companies' preparations for SEPA and their attitudes towards it were studied by Deloitte (2009). Among the studied corporations, only 13 % saw SEPA only as a compliance issue. About half of the respondents (51 %) saw that SEPA will have a big effect on their payment processes, and 46 % thought that SEPA offers them major business opportunities. Corporations were also preparing for SEPA quite well: almost half (48 %) of the respondents had a SEPA strategy in place. SEPA credit transfer was expected to be used in 2010 by 63 % of respondents.

Even though in Deloitte's (2009) study SEPA credit transfer was expected to be widely used in 2010, European Central Bank's (n.d.) statistics (see Figure 3.6) show that in August 2010 only 9,3 % of all credit transfer transactions processed in the euro area were done in the SEPA format. This may imply that corporations are not actually as prepared for SEPA as they would like to be, because they are not using the credit transfer yet.

Figure 3.6 Credit transfer transactions processed in the SEPA format in the euro area



Source: European Central Bank (n.d.)

3.4.4 Criticism

Even though SEPA can benefit the corporations, they have some concerns about SEPA also. In his study Poutiainen (2008) found that corporations did not know what kind of services SEPA would offer them, and what those services would cost. Secondly, they were neither sure about what kind of changes they should do to their systems, organizations and procedures to be able to use the services. Thirdly, corporations were unsure about the schedule of each country migrating to SEPA, and when old payment systems would be dismissed. Finally, corporations did not know how SEPA migration costs could be minimized and how internal consistency could be ensured in national SEPA migration plans.

Poutiainen's (2008) study was however done before this research, so it will be interesting to see if the corporations two years later still have the same worries about SEPA. The empirical research of Finnish companies of will be introduced in Chapter 5, and conclusions given in Chapter 6.

4 METHODOLOGY

This chapter explains the methodology for the empirical research of the thesis. Chapter 2 gave a literature review of business process reengineering and Chapter 3 introduced SEPA. The goal of the empirical research is to combine those two topics by conducting research in Finnish companies. The object of the research is to find out how Finnish companies see SEPA, if they are reengineering their processes because of it, and how SEPA affects the companies.

4.1 Case study research

To find out companies' attitudes towards SEPA and to gather information about a new topic, it was decided to conduct a qualitative research. Case study research was a suitable methodology, because, according to Benbasat, Goldstein & MeadSource (1987) it is good method for gathering the knowledge of practitioners, and appropriate to researching an area which has not been much studied. Case study research examines a phenomenon in its natural setting and gathers information from people, groups or organizations.

Case study research can include one or multiple case studies. In order to find out how SEPA affects companies, there needed to be more than one case study, so multiple cases study became the research method. Yin (2003) states, that the cases for multiple case study should be selected so that they replicate each other, either by *literal replication*, in which similar results are predicted, or by *theoretical replication*, in which contrasting results are expected. The main focus in the research was studying major companies, in which literal replication was predicted, but one SME company was also studied, and theoretical replication was predicted in that case.

4.1.1 Thematic interviews

The case study research was conducted by doing thematic interviews with the cases study companies. Thematic interviews are suitable for situations in which the researcher does not know what kind of results to expect. In thematic interviews the interviewer has a list of topics to be discussed, but no exactly formulated questions. Planning the discussion themes is very important, in order to achieve a successful interview. The discussion can be as in-depth as the interview requires and the interviewee is willing to talk about. The interviewees need to be carefully chosen. (Hirsjärvi & Hurme, 1980)

4.1.2 Reliability and validity of qualitative research

Reliability and validity of the research have to be assessed when doing research. Reliability means the extent to which the same answers are gotten, however and whenever the research is carried out. Validity means to which extend the procedure gives the correct answer to the research questions (Kirk & Miller, 1986). The data from qualitative research is in-depth, but not universally applicable (Alasuutari, 1999). The purpose of this study is not to find out information that applies to all companies, but to find out what the case study companies think of SEPA. Because of the small amount of companies studied, the results cannot be thought to represent all similar companies. The interviews were recorded, to be able to go through the interview afterwards, and the interviewees checked the texts based on the interviews to avoid any misunderstandings in the texts.

4.1.3 Choosing the case study companies

The main focus of the research is on large Finnish companies. The criteria for the case study companies were that they have business operations in Europe and outside Finland. The effects of SEPA would not be as significant with companies with business only in Finland. The companies also represented different types of industries to give a diverse picture of SEPA in Finnish companies. SEPA has different kind of effects on companies, banks and governments, so the study was limited to only companies.

In qualitative research the sufficiency of data might cause problems. Therefore when doing qualitative research it should not be decided in advance, how large the gathered data is going to be. The data collections should be stopped when new data does not add any new information to the research (Hirsjärvi, Remes & Sajavaara, 1997). The number of companies to be interviewed was not decided in advance in this research, but potential cases study companies were thought before starting the interviews. The final number of case studies was discovered only after doing the last interview and discovering that adding a new company would not change the results dramatically. At the end, five major companies were interviewed. One SME was also interviewed to get one case study that could be compared to the results of the major companies, as the results were expected to be different.

The research was conducted by interviewing one person from each company. The interviewees were familiar with SEPA and worked closely with it. The interviewees included managers from cash management, an IM manager and a managing director.

4.2 Interview themes

To get information about the companies' and SEPA, some interview themes were prepared beforehand. In each interview the interviewee first answered to a few background questions, starting with explaining how the payment handling process is organized in the company, what kind of volumes the company has in incoming and outgoing payments. The IT systems used for handling payments were also mentioned. In assessing SEPA effects the banking connections is an important area, so the number and location of banks the company works with were asked.

The SEPA themes discussed in the interviews were the following:

- *Preparing for SEPA:* How is the company preparing for SEPA? Is there a separate SEPA project? Are now only the required changes done in order to become SEPA compliant?
- *SEPA benefits and payment instruments:* Is the company expecting to gain some business benefits out of SEPA? What kind of SEPA payment instruments will be used?
- *The effects of SEPA:* Will there be some kind of payment process reengineering with SEPA? Does SEPA have an effect on reducing manual work in handling payments? What kind of effect does SEPA have on banking connections?
- *Attitudes towards SEPA:* Do you see SEPA as an IT project, an opportunity to reengineer your payment processes or something else? Has the attitude towards SEPA changed in any way during the SEPA implementation?

5 CASE STUDIES

This chapter explains the findings of the case studies done in six Finnish companies: UPM, Wärtsilä, Oriola-KD, Finnair, Metso and Finncontainers. A summary of the case studies can be found at the end of this chapter in Figure 5.1.

5.1 UPM

UPM is a Finnish paper, energy, pulp and engineered materials manufacturer with production plants in 15 countries. UPM employs approximately 23 000 employees and has a turnover of over 7 billion Euros (UPM, 2009). At UPM, a manager of cash management was interviewed.

The group's financial services are centralized into service centers located in Finland and in China. These service centers handle 300 000 incoming payments and almost million outgoing payments a year. Most of the incoming payments are international and outgoing payments domestic, which is caused by a big part of production being done in Finland and customers being foreign companies. The main ERP system for payment handlings is SAP and almost all of the company codes use it. The ERP has interfaces to UPM's main banks, which makes it possible to make most payments straight from SAP. UPM has globally handful primary banking connections and some local banking connections. The main banking connections are usually with those who also finance UPM.

UPM's SEPA implementation was finalized in Finland in spring 2010, and in other European countries the implementation is completed during 2010. An Internal Bank was in use even earlier, and UPM has been able to get similar

benefits as the SEPA benefits for credit transfers already since 2001. With the Internal Bank, a euro payment, for example, from Finland to France, is diverted into a French domestic payment. This way the payment is treated as a domestic payment instead of an international payment. The Internal Bank has bank accounts in many countries and payments can be diverted so that their costs and speed are optimized. After the SEPA implementation the ERP produces the XML standard, so no conversion services need to be bought from a service provider. The approach with SEPA changes is to make the needed technical changes first, and once that is completed, start to think more about the benefits that SEPA can possibly offer. Communicating SEPA to the employees is seen as an important task. UPM feels that keeping an eye on what is happening with SEPA is very important in order to avoid unnecessary surprises.

UPM does not see big SEPA benefits that could be achieved at the moment. For example new markets will not open up with SEPA for a large company like UPM. For smaller companies that could happen with SEPA. Some benefits could be achieved with incoming payments if all the customers were in SEPA, because in that case UPM would benefit from not having to have bank accounts in every country. But the reality is that not every customer is in SEPA. A small benefit will be achieved with the price of euro payment to, for example, the United Kingdom reducing.

SEPA standards, are seen as a good thing: for example since banks will be using the same standards, it will be easier to switch banks and there will be more banks available to choose from, as payments can be done in any SEPA country. The structured creditor reference would be useful in incoming payments from abroad, but the problem is that it is not possible to use the reference in SAP, as the system does not support the structured creditor reference at the moment. Finnish incoming payments already have a

reference number. In 2011 payments need to go through to the other part's bank account in one day, which from UPM's point of view bring transparency to payments and hopefully some benefits in the future too.

UPM is moving away from being direct debited, so SEPA direct debit will not be either used in that way. The company is however interested in direct its customers. The only issue is that SEPA direct debit is not ready yet, and the volumes in it should be higher, so that it would be easier to participate in it. UPM does not have private persons as customers, but expressed anyhow that it does not feel appealing, because the direct debit can be cancelled by the debtor within 8 weeks of the transaction. In Finland the trend seems to be to move towards automated electronic invoices, instead of direct debit. Now the SEPA instruments that UPM mainly uses, is credit transfer, but the situation might be different in the future.

UPM uses SWIFT's (Society for Worldwide Interbank Financial Telecommunication) service called Standardised Corporate Environment (SCORE). SWIFT is a member-owned cooperative, which provides a communications platform, connecting 8 300 banking organisations, securities institutions and corporate customers. SCORE is a closed user group of corporations and banks, in which the members can interact with each other. A company that is connected SWIFT can use a single security setup with all financial service providers. This is supposed to lower risks and bring cost savings to a company (Swift, 2008). Connecting to SWIFT happened for UPM at the same time as SEPA implementation preparations. Switching banks will be easier because of SWIFT, as the banks are all in the same SWIFT channel. Now UPM is only connected to its main banks, but with SWIFT they will have a connection to all banks straight from SAP. SWIFT has increased automation and reduced the need for manual labour, but SEPA itself has not. SEPA had

an affect on connecting to SWIFT and thereby reengineering some processes, but overall SEPA and SWIFT happened quite simultaneously.

The amount of banking connections is unlikely to change, as UPM does not see the current number too high. They see that it is important to maintain the current connections, because banks offer many kinds of services that a company might need. SEPA does give the opportunity to choose from which country in the SEPA area payments will be done.

This year (2010) SEPA has been mainly an IT project to UPM as the needed technical changes have been done. In a way SEPA is a necessary evil, because it does not bring the company great benefits right now. The company is interested in thinking about how certain processes could be reengineered in the future, in order to get the most out of SEPA. In the future most of the company's customers will be in SEPA too, and benefits can be realized. Some years ago the expectations of SEPA were that in 2010 everything would be different, but it has turned out that the changes are not that big and that they happen very slowly.

5.2 Wärtsilä

Wärtsilä provides complete lifecycle power solutions for the marine and energy markets. The main business areas are ship power, power plants, and services. Wärtsilä operates in 160 locations in 70 countries employing 18 000 employees. The turnover in 2009 was 5,3 billion euros (Wärtsilä, 2009).

At Wärtsilä a manager of cash management and trade finance was interviewed. The group treasury, located in Finland, is responsible of the cash management and banking connections of the whole group. Wärtsilä also

has a shared service center in Finland, which is responsible for the financial processes of majority of the subsidiaries around the world, with an exception of countries where local restrictions prohibit doing so. The subsidiaries do their domestic payments themselves at the moment, but cross-border payments are done by the service center. In the future, because of SEPA, all the payments to payees' with a bank account in the SEPA area, will be centralised the payment center to the main extent. Now the payment center handles some hundreds of thousands outgoing payments a year. The IT system used for payment center purposes in Wärtsilä is SAP In-House Cash, which is an integrated part of the group's core SAP ERP environment.

SEPA compliance of SAP In-House Cash had been reached at Wärtsilä before the interview in autumn 2010. The implementation itself was not done as a separate project, because Wärtsilä had been using SAP's In-House Cash - application for payments since 2004. The In-House Cash Center is a virtual bank inside a corporation and in which the parent company acts as an internal bank for the subsidiaries. For the subsidiaries the In-House Cash is being treated bookkeeping and process wise as like any other bank, but it keeps cash resources within the group minimizing the actual flow of cash and reduces bank charges, interest expenses and losses from delays in value-dating payments (SAP, 2006). Having one core system in which payments are handled made the SEPA implementation easier.

The needed SEPA compliance requirements, such as implementing SEPA XML payment file, collecting vendors' IBANs and BICs and informing Wärtsilä's own payment instructions in IBAN format, were gradually implemented by adjusting existing processes and tools instead of running a separate project for it. Whether to do only the changes to become SEPA compliant or to do more changes had not been formally decided, but Wärtsilä felt that they had

already done than is required in order to meet the SEPA compliance requirements.

Regardless of cash centralization possibilities through SEPA, Wärtsilä will keep separate bank accounts for subsidiaries in the SEPA area, instead of taking a “one Euro collection account” approach. Keeping the accounts separate makes reconciling incoming payments and clearing accounts receivable ledgers easier, not to mention that cash ownership remains unambiguous. Posting bank statements in Wärtsilä is being centralized to the shared service center and if this continues to go well, Wärtsilä will also centralize cash collecting even more. Theoretically it would be possible to have only one euro denominated cash pool in Europe, to which customers do their euro payments, but most likely Wärtsilä will go for regional approach utilizing some number of banks, keeping in mind that there are also vendor and debtor payment flows in other EU currencies than euro. Centralizing payment process handling to the service center, however, was done to reduce the need for labor in subsidiaries, and it had nothing to do with SEPA.

Of the SEPA payment instruments, Wärtsilä is mainly only going to use SEPA credit transfer. With very few exceptions only, Wärtsilä prefers not be direct debited for the sake of remaining in control of disbursements and liquidity of the group. Wärtsilä wants the outgoing payments to go through the payment center and its partner banks and not from the different subsidiaries. Two thirds of Wärtsilä’s turnover also comes from ship power and power plant projects, in which payment posts are of significant value making it impossible for the customers to accept direct debit, not to mention that 65–75% of payment posts originates outside Europe and SEPA. Also, negotiating the contracts for a large customer portfolio would be too time-consuming.

Wärtsilä does not see adopting structured creditor reference value adding, because they already inform billing code to their customers in invoice layout for referencing purposes, which enables matching incoming payments with invoices. Several customers also group their invoices and pay many invoices at once. Switching to paying all invoices separately with reliance on the creditor reference requires big changes from both banks and corporations. Having a standard creditor reference does not either make matching easier if it is not used.

Wärtsilä had reengineered and centralized their payment processes before SEPA, but they see that SEPA does enable even greater centralizing, even if it has not been the main driver in it. The benefit that SEPA brings is centralizing the disbursement of all SEPA area euro payments to the payment center. The savings of this are though much smaller than they were in centralizing the payment processing to the shared service center. Having the service center take care of payment processes helps the subsidiaries to concentrate on things that are more important for their businesses. SAP's In-House Cash and having the service center collect the bank statements, have been the main drivers for automated processes, SEPA itself has not had an effect on reducing manual work in payment handling.

Wärtsilä has more than ten main banks and some connections with local non-relationship banks. The number of banking connections will not dramatically change with SEPA, because it is important for Wärtsilä maintain good banking connections. Having good connections with banks that can finance their customers so that they are able to buy from Wärtsilä, gives a competitive advantage to Wärtsilä.

If Wärtsilä had not been preparing for SEPA compliance requirements well in advance, SEPA would have been an IT project for them. Efforts taken to

support SEPA are seen as a small scale IT exercise as it concerned only getting the ERP to produce the SEPA XML payment file standard. Collecting vendors' IBANs and BICs was rather a data quality requirement and handled as part of normal master data management. SEPA is an opportunity to make operations more efficient, although it has not directly driven the centralization of financial administration. The company strategy has seen the benefits of centralizing operations even before SEPA. When the SEPA project started, the Euro payments were already talked about and after that the concept of SEPA seems to have just become wider. The benefits of it were seen already from the beginning, so there have not been any changes in how SEPA has been seen during the project.

5.3 Oriola-KD

Oriola-KD is pharmaceutical retail, wholesale and healthcare trade company with operations in Finland, Sweden, Russia and the Baltic countries. The Finnish affiliate, Oriola, distributes medicine to pharmacies, veterinarians and other healthcare customers. Oriola's net sales were in Finland 575 million euros in Finland in 2009. The parent company had a turnover on 1,7 billion euros in 2009 and employed 4 300 people. Oriola-KD was chosen as the Logistics Company of the Year by The Finnish Association of Purchasing and Logistics presented in 2010 (Oriola, 2009).

The case interview was done with Oriola's IM manager. Oriola gets 250 000 incoming payments and makes 25 000 outgoing payments a year. The incoming payments come from Finnish pharmacies, and other customers. Oriola has several IT systems for payment handling. The incoming invoices that are caused by production, are handled in the ERP by IBS. Other invoices go through Basware IP and are later updated into ERP's accounts payable.

The invoices from production are updated the ERP, because they need to be matched with the production. From accounts payable the contents of the invoices move to Opus Capita's payments system, where they are paid. Oriola sees that having one system for all payment handling would be better than the current situation.

Oriola has a SEPA project in spring 2010, and before that an ERP project, in which the SEPA banking and system changes were done. They use Opus Capita's converter to produce the SEPA standards, which means that the changes are not done all the way to the ERP. This is not a permanent solution, but Oriola sees that the standards are not completely ready yet, and it is more expensive to do the changes to the ERP twice. Now only the required changes are done, because Oriola has gotten so mixed messages from banks, that they feel it is better to wait and see what kind of additional changes they could do later.

SEPA benefits will affect mainly the parent company, Oriola-KD, by, enabling new kind of group financing. The parent company also has operations in many countries, and other EU countries are in SEPA too, bank transactions will become cheaper, which will be the biggest business benefit. Oriola sees that the structured creditor reference will be a big improvement in foreign payments, which now come in without a reference. In Finnish payments a creditor reference is already in use, so that will not be affected. SEPA credit transfer is already in use, but Oriola is more skeptical towards the SEPA direct debit. Direct debit is not used now and since Oriola's customer base is so diversiform, it is likely that SEPA direct debit is not suitable for Oriola's business. Direct debit is not used at the moment either.

Oriola-KD plans to centralize the handling of incoming payments, which at the moment is done in each country separately. In the future only Russia will

handle its own incoming payments, because it is more difficult to reengineer payment processes there. The outgoing invoices process has already been fully automated and it is handled by an external service provider. This means that SEPA will not have an effect on increasing automation in outgoing invoices. Having a common standard for incoming invoices would be a good thing, because if there are several service providers involved in the process, the process gets more difficult. Some manual work is required in incoming invoices, as the paper invoices need to be opened and scanned. This service is bought from a third party.

Oriola-KD has banking connections mainly with Nordic banks and they have approximately five main banks and some local banking connections. The connections are already quite consolidated, but with SEPA the amount of banking connections might be slightly reduced.

In the beginning SEPA was mainly an IT project for Oriola, and the project enables some benefits to be achieved in the future. Once other countries are in SEPA too, it is possible to achieve some process benefits. The expectations were greater in the beginning and more and better standards were expected. Building a standard seems to be surprisingly difficult. In Oriola's opinion banks have a great role in SEPA and they should therefore cooperate better. Now it seems that banks have their own challenges with SEPA, caused by, for example, their aged IT systems.

5.4 Finnair

Finnair is Finland's leading airline, with routes to destinations around the world. Finnair group's operations include scheduled passenger traffic and leisure traffic, technical and ground handling operations, catering, travel

agencies, travel information and reservation services. Finnair group employs 8 800 people and had a turnover of 1,8 billion euros in 2009 (Finnair, 2009). At Finnair, the manager of payment services participated in the case study. The payment services handle the payment transactions of the whole Finnair group. The IT system used for handling the payments is Basware's Analyste. On the group level, Analyste gets information from many different systems, because the business areas have different IT systems. The system used for Finnair's accounting is SAP.

In order to produce the XML standard, Finnair has decided to use a converter to convert materials from Analyste to the XML form. Right now the systems would not produce XML without the converter. The changes to systems will be done when the systems need updating, after which the systems themselves will be able to produce the XML standard. The updates will probably take place during the next two years. At the moment Finnair does fulfil the SEPA requirements.

The Finnair group has a common SEPA team, who participated in the SEPA project, but the business areas do some SEPA preparations also themselves. Finnair went through an organizational change in summer 2010. That caused some changes inside the company, and after that no major changes have been done. The only changes SEPA caused were the compliance requirements to the IT systems.

Finnair does see some benefits in SEPA. Finnair has many places of business abroad, and at the moment for example salaries are paid locally. Being able to pay for example salaries from Finland would be a good improvement, and that should be possible with SEPA. With SEPA money also transfers faster between payer and payee as the bank flow disappears, which is a good improvement from Finnair's point of view.

The SEPA payment instruments were somewhat interesting to Finnair. Structured creditor reference might be used when it is ready, but Finnair is not actively driving that, as they want to wait and see what others will do. Finnair's foreign payments still require some manual work in matching the payments with invoices, so if the reference was in use it probably would mean better automated processes. Finnair will use SEPA credit transfer, but they have not yet decided if SEPA direct debit will be used. In general they are moving more towards e-invoicing, so it is possible that because of e-invoicing there will not be need for direct debit. But they plan to see first what others are doing also regarding SEPA direct debit.

Payment handling of the group has already been centralized into Finland, and SEPA has not been the driver for that. The opportunity of maybe centralizing salary payments to Finland is something that SEPA might drive. SEPA will probably have an effect on reducing the amount of banking connections slightly. The main banks are two Finnish banks, and abroad the connections are centralized to two global banks. Big part of Finnair's business is however in Asia, and many banking connections are there, so because of that SEPA cannot have a major effect on the overall number of banking connections. In some SEPA countries the tax authorities require that payments come from local accounts, which means that Finnair has to have bank accounts in those countries. Before all countries and their authorities are on the same level, full SEPA benefits cannot be realized.

SEPA was first an IT project for Finnair, and the benefits could be realized only after the mandatory IT part. When money moves faster, control over working capital, for example, will be improved. The benefits of SEPA have believed to be the same during the project. The thing that has been most

surprising for Finnair was how big a project SEPA actually is, and how big investments were needed from Finnair.

5.5 Metso

Metso supplies technology and services for the mining, construction, power generation, recycling, and pulp and paper industries. Over 40 % of Metso's net sales come from services. Metso's business is divided into three business areas: mining and construction technology, energy and environmental technology and paper and fiber technology. Metso's turnover of 2009 was 6,4 billion Euros and they employed 27 000 people in over 50 countries (Metso, 2009).

A manager of cash management at Metso Shared Services was interviewed for the case study. Metso's payments handling is partially centralized to a service center, located in Finland. The service center for financial administration was founded in 2003, and it handles the payments of all the affiliated in Finland and Sweden. The amount of the service center's incoming payments is 200 000 and 500 000 outgoing payments a year. The majority of outgoing payments go to Finland, but the majority of incoming payments come from outside Finland, and same applies for Sweden. There are plans for moving the payments handling from other European countries to the service center, too. For now the other European affiliated outside Finland and Sweden handle their own payments. The group treasury, which takes care of the group's financials, is also located in Finland.

The service center uses one common IT system for payment handlings, but there are three different financial systems in use. The affiliates in Europe also have additional systems for handling their payments. The ERPs used by

the service center are Baan, SAP and M3, one for each business segment. Baan is used by paper and fiber, SAP by mining and construction and M3 by energy and environmental technology. For the service center, having only one common ERP would make for example developing the system easier, but the group policy has allowed the business segments to make their own decisions regarding the ERPs. For now, payments are done with Opus Capita in Finland and Sweden, but Metso will soon join SWIFT, as they need a solution for global payment factory.

Metso runs separate SEPA implementation projects for all three ERPs in Finland. The changes are done directly to the systems and no converters are used for producing the XML standard. The projects for SAP and Baan are ongoing, and the M3 project will take place a little later, but the goal is to have all the ERPs ready before the beginning of 2011. The changes done now are the SEPA compliancy requirements related to the IT systems. Joining SWIFT is the only additional change that SEPA has driven.

In the beginning SEPA requires big investments, but it will also bring some benefits for Metso. Having the same XML standard in different IT systems is one of the main benefits. Money will also move faster between the payer and payee and cross-border payments within the SEPA area will become cheaper, as there will not be a difference between national and cross-border payments anymore.

The SEPA instruments were also discussed with Metso. SEPA credit transfer will be used at Metso. Direct debit is not used in Finland, but it is somewhat in use in Sweden, and even more in the rest of Europe. Metso sees that when SEPA direct debit is ready, it will be used in the same way as direct debit is used now. Metso does not however direct debit its customers. In Finland direct debiting is not commonly used between two companies and

that is the case also in Metso. In stead in Finland electronic invoices are commonly used and that is an area which Metso is also focusing.

Creditor reference on the other hand is almost always used in Finnish incoming payments. In other countries creditor reference is not used, so having a common ISO creditor reference standard would be good. The structured creditor reference is not in use yet, because it is not completely ready, and in Finland, for example, Metso's bank does not offer it yet. In order for the ISO reference to work, the payer has to also make a SEPA credit transfer. Metso has still to figure out how the national references and the ISO reference can be used parallel, when the ISO reference is ready.

SEPA itself has not affected Metso's payment processes, because Metso has already earlier started to centralize the payment processes into a service center. SEPA does help though in getting the most out of Metso's already existing payment processes. Both SEPA and SWIFT further centralization, but they are not the key drivers for it. Centralizing all payments to the service center has been a goal even before SEPA, but because of the many ERPs, Metso has had to wait with the centralization. Now as Baan, SAP and M3 are rolled out to other European countries, the payments will be moved to the service center at the same time. Having the XML standard and SWIFT connections makes the centralization easier.

In some European countries payments handling is done by manually, using paper invoices and in some cases even cheques. Moving the payment handling to the service center has an effect on reducing manual work and increasing automation. Metso sees that Finland is a forerunner in automation. But as SEPA itself did not drive the centralization, it is not really the driver for increasing automation either.

Metso uses approximately 10 main banks in Europe, and the goal is to centralize the payments and reduce the number of banking connections. Metso would not like to have more than one main bank in each country. It is unlikely that there would only be one bank in Europe, but maybe from 3 to 4. SEPA is only one factor in reducing the number of banking connections: SWIFT helps connecting to the banks, as only one channel is required to all banks. For Metso it would be more expensive to build connections to all banks than to pay for the SWIFT services.

For Metso SEPA will bring benefits in the future, but right now all of them cannot be realized. The SEPA implementation projects are still ongoing and SEPA is quite technical now. It has been good to see how peoples' general knowledge of SEPA has increased as time has gone by. One thing that has been surprising for Metso, is realizing how different banks can have different interpretations of the same standard. It seems that even if SEPA is supposed to be a standard, in reality the situation is a bit different. SEPA brings though needed improvements to an area that in Finland has been very stable and perhaps even boring, for a long time.

5.6 Finncontainers

The SME interviewed in this case study is the company Finncontainers. Finncontainers is a containers company, whose business includes selling, leasing and transporting containers. Finncontainers is Finland's biggest container company with a turnover of approximately 2 million euros in 2009. Finncontainers currently employs three people.

Finncontainer's managing director answered the interview questions. Finncontainers gets 1 300 incoming payments and they make 850 outgoing

payments a year. The payments are processed in the company's ERP. The name of the system will not be mentioned here on Finncontainer's request. The ERP is connected to the Finnish bank, which is the company's main banking connection. Some incoming payments arrive in electronic format through internet bank, others arrive in paper format. It became possible to make outgoing payments in SEPA format straight from the ERP, in October 2010. Previously the invoices had to first be processed in the ERP, and then paid through an internet bank. The same main bank is used for all outgoing domestic and cross-border payments.

Finncontainers has not done a SEPA implementation project. The ERP was changed in summer 2010 for non-SEPA related reasons, and the last SEPA requirements were updated to the system in October 2010. Finncontainers sees that the biggest SEPA preparations IT providers responsibilities, and not SMEs'. There had been many SEPA information sessions for SMEs arranged by banks or IT providers, but they were seen as unnecessary. Banks often say that companies need to be aware of SEPA, so that they can demand the right things for their IT providers. Finncontainers sees that it is the IT providers' responsibility to offer the needed services for their customers. SMEs do have to, for example, take care of collecting suppliers' IBANs, but for Finncontainers that was a small task.

SEPA does bring some benefits for Finncontainers. Being able to send foreign payments straight from the ERP, instead of processing them first in the ERP and then paying through internet bank, saves time. With SEPA there is also no need to differentiate between foreign and domestic payments and all invoices can be paid at once, which is fast. Foreign payments become also cheaper, which brings some savings to the company. From the SEPA payment instruments SEPA credit transfer will be used, but direct debit not.

Direct debit is not used now either, and to Finncontainers having to signing contracts with customers, in order to direct debit them, sounds difficult.

SEPA will not drive any process reengineering, as there is no need for that. The effect of SEPA is that paying invoices becomes a bit simpler and faster. SEPA will not have any effect on reducing manual work or the number of banking connections. The company now only has one main banking connection.

For Finncontainers, SEPA has not been an IT project, because they have not done any IT changes. They see SEPA as something that IT providers have to take care of, but not SMEs themselves. Which IT system a company uses, especially if it is an SME, might have an effect on how easily SEPA changes happen for the company. For Finncontainers SEPA has not caused any concerns, but for a company using some different ERP it might cause. The only visible changes that SEPA has caused have been bank account numbers changing to IBAN-numbers.

5.7 Summary of the case studies

The main points of the case interviews are gathered to Figure 5.1. The conclusions of the case studies are explained in Chapter 6.

Figure 5.1 Summary of the case studies

	UPM	Wärtsilä	Oriola-KD	Finnair	Metso	Finncontainers
Industry	Paper, pulp and timber	Manufacturing and service	Distribution, wholesale, service	Airline	Industrial machinery	Wholesale distribution, service
Turnover €m (2009)	7 000	5 300	1 700	1 800	6 400	2
Number of personnel (2009)	23 000	18 000	4 300	8 800	27 000	3
Interviewee	Manager of cash management	Manager of cash management and trade finance	IM manager	Manager of payment services	Manager of cash management	Managing director
Incoming / outgoing payments a year	300 000 / 1 million	n/a	250 000 / 25 000	n/a	200 000 / 500 000	1 300 / 850
Payments handling	Subsidiaries handle domestic payments at the moment, cross-border payments done by a service center in Finland and China	Subsidiaries handle domestic payments at the moment, cross-border payments done by a service center in Finland	Handling of incoming payments at the moment done in each country separately	Payment services handle the transactions of the whole group	Payments of affiliates in Finland and Sweden centralized to a service center in Finland	Done by the company
SEPA implemented in Finland	Project in spring 2010	Gradually implemented, no separate project	Project in spring 2010	Separate project in 2010	Projects ongoing, done before 2011	SEPA implemented, no project
Produces XML	ERP	ERP	Converter	Converter	ERP	ERP
SEPA benefits	Nothing at the moment, maybe some in the future	Centralization of the disbursement of all SEPA area euro payments to a payment center	Enabling new kind of group financing, bank transactions become cheaper	Paying all salaries from Finland, money transfers faster	Money transfers faster, cross-border payments become cheaper	Sending foreign payments straight from the ERP, paying all invoices at once, foreign payments cheaper
SEPA payment instruments used	SEPA credit transfer yes, direct debit no	SEPA credit transfer yes, direct debit no	SEPA credit transfer yes, direct debit no	SEPA credit transfer yes, direct debit no	SEPA credit transfer yes, direct debit outside Finland yes	SEPA credit transfer yes, direct debit no
Primary banking connections	4 to 6	>10	5	4	10	1
SEPA effect on banking connections	No effect	No effect	Might slightly reduce	Probably reduce	Reduce	No effect
SEPA and BPR opportunities	SEPA had an effect on connecting to SWIFT, and thereby on reengineering some processes	Centralizing payment handling had nothing to do with SEPA, but SEPA enables even greater centralization	Plans to centralize the handling of incoming payments, SEPA enables it	SEPA has not the driver for centralizing payments	Centralization of payment processes started already before SEPA	No need for BPR
SEPA as an IT project	Now mainly an IT project	Small IT exercise	Now mainly an IT project	Now an IT project	Now quite technical	Not an IT project

6 CONCLUSIONS

The aim of this thesis was to find out how Finnish companies see SEPA changes and the possibilities it offers for reengineering payment processes. SEPA a project of the 32 European countries, and with SEPA all euro payments will be treated as domestic payments. Companies in the SEPA area have to make some changes, in order to become SEPA compliant. SEPA will, for example, change the payment format to ISO20022 XML standard and the bank account numbers will to the IBAN format.

The research was carried out by doing a literature review of BPR, followed by a case study, in which five major Finnish companies and one SME were interviewed. The conclusions from the research are explained and discussed in this chapter, the limitations of the study explained and suggestions for further research given.

6.1 Conclusions from the case studies

6.1.1 SEPA preparations

All the six interviewed companies had done the needed SEPA changes either fully or almost fully by the time of the interview, meaning that they were already well prepared for SEPA. The approach to SEPA was similar in all companies: only mandatory changes were done at the time. Two out of six interviewed companies had chosen to use a converter to produce the ISO20022 XML data format; the rest of the companies did the changes straight to their ERPs. Those using a converter saw that it was better to refrain from doing the changes to the ERP yet. In general, companies felt that they wanted to wait and see first what happens with SEPA, before doing

any additional changes. Banks, for example, had given mixed messages about SEPA to some of the case companies, which affected the companies' choice to wait with additional changes. Overall, the companies thought it was however important to keep an eye on what was going on with SEPA, to avoid any surprises.

6.1.2 Expected benefits and payment instruments

The case study companies expected SEPA to bring them some benefits, but the benefits were expected to be fully realized later. The common answer was that other companies have to be in SEPA, to gain all the benefits of SEPA credit transfer. SEPA was seen to enable the centralization of payments and cash collection, though it was not driving the centralization. SEPA also offered the possibility to consolidate banking connections, but most companies saw that there was no need to consolidate the connections anymore. It was though seen important to maintain the existing banking connections, because banks offer other services that might be useful for the company.

SEPA credit transfer was the only SEPA payment instrument that all companies were going to use. One company mentioned, though, that they did not expect to gain great benefits from SEPA credit transfer, because the use of an internal bank had offered the same benefits for many years already. Only one of the case companies planned to use SEPA direct debit. Most companies thought that direct debit was not suitable for their business, and they found the rules, like the long cancelling period of SEPA direct debit too complicated. Many also mentioned they would rather use e-invoicing than direct debit. The structured creditor reference raised mixed feelings: it would be a good improvement if everyone used it, but many were sceptical about it actually being used. Having a creditor reference standard does not

help, if it is not used by both payer and payee. In Finland a creditor reference is already in use, so the change would only affect payments to and from other countries.

6.1.3 Business process reengineering possibilities

One of the research questions was if SEPA is an opportunity for the companies to reengineer their business processes. The finding from the interviews was that even though companies saw that SEPA offered them possibilities for business process reengineering; most of them had already done most of the reengineering. The payment handling had commonly been centralized to shared service centers. The service centers had been established already before SEPA, meaning that SEPA was not driving the centralization, and the reasons behind centralizing were not SEPA-related. Only one of the case companies was going to reengineer its payment processes, because SEPA offered the opportunity for doing it. In the SME there was no need for reengineering payment processes.

The payment processes were in most companies already highly automated, and centralizing payments handling to a service center had increased the level of automation even more. SEPA itself did not have an effect on increasing automation, though the companies saw that SEPA can enable greater automation. Two companies mentioned also that they had joined or were planning to join SWIFT, to connect easier to all banks. Joining SWIFT happened quite simultaneously with SEPA.

6.1.4 IT project

The major companies all agreed that SEPA was for them at the moment an IT project or a small IT exercise. The changes to the ERPs had to be done first and later the benefits of SEPA could be gained. Some major companies had had a separate SEPA implementation project; some had done the changes gradually. The SME did not see SEPA as an IT project, but rather as something that IT providers should mainly take care of, and not the companies themselves. For the SME SEPA caused only minor tasks, in form of collecting IBANs from suppliers.

The attitudes towards SEPA had been quite unchanged since the beginning of SEPA and only the knowledge of SEPA had increased. What had been surprising for the companies was how hard building a standard seemed to be, and how banks could have different interpretations of the same standard. SEPA also happened surprisingly slowly and required investments from the companies. Only one of the six companies saw SEPA, however, as a necessary evil, the others thought SEPA would benefit them.

6.2 Discussion

The results from the case study showed that though companies thought SEPA was an opportunity for process reengineering, it was not the key driver for it, because reengineering had already started before SEPA. Reengineering was done by centralizing payments handling to one place and simplifying processes, rather than just making them faster, which is in line with Hammer's (1990) definition of BPR. Payment handling was commonly centralized to one or two shared service centers. Shared service centers also have some commonalities with BPR, such as being process focused in the

change activities and putting the customer first by supporting a customer-oriented way of doing business (Ulbrich, 2006).

IT has a recognized role in BPR (e.g. Davenport & Short, 1990; Venkatrama, 1994; Gunasekaran & Nath, 1997; Attaran, 2003), but in this research the role of IT could not be clearly evaluated, because reengineering had already been mostly done. What could be seen, however, was that IT had a big role in the SEPA changes, as SEPA was at the beginning mainly an IT project for the companies. SEPA involved companies, but also their extended business networks, such as banks, suppliers, and customers, to which they were connected through IT. Venkatrama (1994) suggests that companies doing BPR on a business network design level, and are connected to external businesses through IT, have greater business transformation possibilities and can gain greater benefits from BPR. SEPA does help companies to connect to the business network by using common standards.

The major companies interviewed had done all done changes to their IT systems to become SEPA compliant. SEPA required some amount of time and investments, to get the required changes done. Some had several IT systems for handling payments, and all the systems needed some changes, but the changes were quite small in companies who had already been using an internal bank, and driving towards centralized payment handling. The SME interviewed had a very different attitude towards SEPA and saw SEPA as IT providers' concern. Even if SEPA does require some IT changes from companies in the beginning, in the future it will more change the way companies act. Some companies mentioned the importance of communicating the change to the employees, which is also recognized as a critical success factor of projects causing organizational change (e.g. Cheng & Chiu, 2008).

SEPA is supposed to bring common standards into the area of payments, but there still are some limitations for taking full advantage of it. One finding was that banks have different interpretations of the same standards, which makes it harder for companies to operate with several banks, though that it the opposite of what SEPA is trying to do. The structured creditor reference is not ready for use yet, and in some cases it was mentioned that the companies' IT systems do not even support it. The attitudes towards the structured creditor reference were very negative. The companies did mention that they might use e-invoicing instead of direct debit in Finland, but as that will not be used in cross-border payments, again the SEPA benefits disappear.

Though there are some weaknesses in SEPA, the companies in general believed that it would benefit them in the long run. There is still some time left before SEPA is completed, and all countries are using the same instruments and standards. The companies saw that in Finland banks and companies are well aware of SEPA, but that they have to wait for everyone else to be at the same level, before the benefits can be realized. Fitzgerald (2008) suggested that companies can choose to treat SEPA as a short-term compliance issue, or to wait and see what others do regarding SEPA or to view SEPA as a long-term strategic opportunity. For the interviewed companies SEPA wasn't only a compliance issue. For the time being companies were waiting to see what was happening to SEPA, but in the long term SEPA will be more of an strategic opportunity for them.

The research implies that there are still many things that can be improved to make SEPA better. Especially the negative attitudes towards SEPA direct debit show that the direct debit needs improvements, because if it stays as it is, it might not be commonly used. The companies were interested in using e-invoicing, which shows that the continuous development of that option is

important. Banks have a great role in SEPA as the drivers of it, but the companies faced problems with banks interpreting the common standards differently. Banks should make sure that a standard is the same in all banks; otherwise one of the main benefits of SEPA disappears. Talking to Finnish companies showed also that there are still some misunderstandings of SEPA, and worries that not everyone is doing the required changes, which implies that better communication is needed to make SEPA a successful project.

6.3 Limitations and suggestions for further research

The research of this thesis concentrated mainly on major Finnish companies. The amount of companies interviewed, six, in the case study was rather small and the results cannot be thought to represent all similar companies. The study was also limited to companies with business in Europe, and SEPA might have a different kind of effect on companies for example planning to expand to Europe, or companies with business mainly outside Europe.

Interviewing a Finnish SME proved that SEPA can have a different kind of effect on SMEs than major companies. Studying SMEs more closely in this topic would be interesting. Many of the companies interviewed found that even though SEPA is not quite ready and some things are unclear, in general Finnish companies and banks are well informed and prepared for SEPA. The interviewees anticipated that the situation might not be as good in the rest of Europe. Researching SEPA preparations and effects in the rest of the Europe could provide interesting and different results.

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