CHAPTER - 10
STRUCTURAL AND ORGANISATIONAL ISSUES IN INTERNATIONAL FACTORING

10.1 Introduction

The organisational aspects of any activity need to be given a deep thought before it is actually launched. This is particularly applicable for a new financial product like international factoring. Being an innovative financial service, the issues in this regard are many:

(i) Who should launch this service?
(ii) What should be the ideal organisational structure?
(iii) What types of traits the personnel working in such organisation(s) should have?
(iv) How the personnel should be developed through training, etc.?

10.2 Launching the Services: Structural Framework

The main issue in this regard is whether factoring activities should be started by banks. The debate on this issue commenced with the deliberations in Kalyanasundaram Committee both with respect to domestic and international factoring services. One view point was that the bankers were in better position to provide such services in view of their
past experiences in dealing with bills-financing portfolio of their customers. Since
factoring and bills-financing are more or less the same as far as credit delivery is
concerned, this view supported the case of the banks. However, there was a resistance
to the above, which stemmed mainly from three considerations:

(a) Factoring needs special expertise which bank personnel do not possess,

(b) Banks have failed in affecting recovery effectively from their own
customers. Therefore, there is no justification in the argument that the
banks would be in a position to collect the debts from an outsider (i.e. the
debtor) with whom they do not have any privity of contract, and

(c) Even in case of factoring, banks are likely to adopt the same conservative
and security oriented approach as is now being adopted by them in
financing receivables.

Therefore, this view argued in favour of handling factoring services by the private
sector with a view to bring in more professionalism needed in an innovative service.

However, the working group while agreeing with the limitations in the working
of banks, decided the issue in their favour, primarily on account of two considerations.
Firstly, the banks have vast experience in financing and collection of receivables and
secondly, given the orientation required for factoring business, they would be able to
perform well. As factoring is a specialised activity, the group felt that the banks should
not undertake the same departmentally but manage the same through separate subsidiary.
The group also intended to restrict the number of factoring companies at least to start with as otherwise there may be unhealthy competition. Therefore, it was ultimately recommended to experiment with four to five factoring organisations, to be launched by banks, on a zonal basis.

This issue regarding provider of international factoring services in the country also figured in the deliberations of Kalyanasundaram Committee. Two views were put forth during the discussions. One was that banks should be allowed to launch international factoring services along with its domestic counterpart, primarily in view of their vast experience and expertise in handling the export finance. The second view was totally in support of assigning this responsibility to ECGC. This stemmed from the following arguments:

(a) ECGC has a long standing reputation as an export credit insurance organisation, and

(b) It has a data base of more than 70,000 overseas buyers and is actively engaged in the collection of debts especially in those cases where claims have been settled by it.

Therefore, this view suggested that ECGC be given exclusive responsibility for starting export factoring services (only the administrative services) while the banks can continue to provide, as is being done, the export finance both at pre and post-shipment stages.
However, the Working Group (Kalyanasundaram Committee) after examining the pros and cons of both the view points, agreed for both the propositions. This means that both ECGC and banks can start international factoring services. This arrangement, in view of the group, would induce an element of competition in the system.

In this connection, we may also refer to the opinion elicited from the exporters as to who, in their opinion, are best suited to start this innovative service in India (chapter 6). It may be recalled that 82 per cent of the exporters were in favour of the banking system (banks and bank-sponsored subsidiaries). Out of this, 67 per cent favoured the banks alone.

Taking all the above mentioned factors in consideration, it may be concluded as under:

(a) Either banks or ECGC may be permitted to launch international factoring services.

(b) The activity should not be undertaken departmentally meaning thereby that subsidiaries should be established exclusively for transacting factoring business, either by bank(s) or ECGC.

(c) Existing factoring companies (subsidiaries of State Bank of India and Canara Bank) engaged in domestic business should be permitted to undertake international business also.
(d) Both fund and non-fund based factoring activities can be thought of. In the former case, both the financing and other administrative services will be offered by the factors, while in the latter, the factor would provide only the ancillary services, existing financing arrangements not being disturbed. In case ECGC starts the non-fund based factoring, it would imply that the exporters would continue to enjoy the working capital limits both at pre and post-shipment stages from the banking system.

10.3 Organisational Structure

The other important issue is developing an ideal organisational structure for a factoring company assuming that the service is being provided not departmentally by a bank or ECGC. The different functional aspects of a full service factoring arrangement can be summarised as under:

(a) Marketing and Business Development Activities

1. Developing new products and/or modifying existing ones to meet the changing needs of the clientele.
2. Conducting market research on an ongoing basis.
3. Identification of new clientele group (exporters).
4. Promotion of new business.
5. Advertising and publicity.
6. Public relations with the parent company and outside experts/consultants to tap new business.

(b) Credit Management Activities

1. Appraisal of a factoring proposal.
2. Conducting pre-sanction inspection (known as survey in factoring parlance).
3. Helping the top management/credit committee to take decisions (accept or reject).
4. Documentation formalities.

(c) Client Relations (Operations) Activities

1. Liaison with the exporters on day to day basis.
2. Processing invoices/credit notes.
3. Computation of availability and disbursal of funds.
4. Transmission of information - returns to the exporters.
5. Review, monitoring and follow-up.
6. Annual review.
7. Reconciliation of accounts.

(d) Credit Control Activities

1. Maintenance of sales ledger.
2. Follow-up with import factor.
3. Allocation of debts realised.

4. Raising and solving disputes. This activity arises in case there is a dispute between the exporter and the importer regarding any of the terms of contract like price, quality, etc.

(e) **Legal Activities**

1. Handling cases relating to insolvency / bankruptcy of the exporter(s) / importer(s).

2. Initiation of legal proceedings against importers for recovery of dues.

(f) **Finance & Accounts Activities**

1. Raising resources and treasury functions.

2. Booking forward contracts for the exporters.

3. Financial accounting including supplier accounting and preparation of annual account after due provisioning and maintenance of normal records like payroll, purchase ledger, nominal ledger, etc.

4. Exporter/importer profitability analysis.

Besides the above sections, a factoring company may also have separate wings for the following two job specifications:

(a) Personnel and general administration, and

(b) Computers.
However, the above list is only illustrative in nature and many variations thereto are possible. It may also be reiterated that there is no ideal organisational structure which can be strictly stipulated for every factoring organisation on an universal basis. This would depend on:

(a) size of the company,
(b) types of activities undertaken by it, and
(c) whether it is an organisation exclusively engaged in international factoring services or an establishment which is dealing with other activities as well, namely domestic factoring services and other financial activities.

Let us have a look at the abridged organisational structure of Lombard Natwest, the factoring subsidiary of National Westminster Bank Ltd., one of the four largest clearing banks in the UK (Figure 10.1).
This shows that international factoring services are an integral part of the overall factoring activities of the company. The detailed organisational structure of this international factoring division of Lombard Natwest is given in Figure 10.2. This chart depicts the total functional division of the various job-specifications discussed in the above paragraphs. Two specific features of the organisational structure given in the above figure need further description:

(a) The words "credit controllers" and "collection controllers" are used synonymously in the factoring parlance and they stand for the personnel in the factoring organisation, who are engaged in collection activities. Since the prime activity of Lombard Natwest is direct export factoring, this position assumes importance.

(b) The main export factoring of Lombard Natwest is in respect of exports which are taking place in Latin America, Germany, Nordic countries. Therefore, country specific controllers have been provided. This is because these persons are required to possess thorough knowledge regarding the import rules and regulations besides customs, culture and languages of the importing countries.
This organisational structure broadly agrees with the job descriptions described above. Therefore, in a broad sense, the organisational structure of an international factoring company in India may look like as follows (Figure 10.3):

Figure 10.2

Organisational Chart of International Services: Lombard Natwest

Head of International Services

Money Management
Credit & Survey
Manager
Assistant to
Credit Manager

Assistant to
Account Manager

Sales Ledger & Collection Supervisor

Credit Controller
Latin & Collections
German Controllers
English & Credit
Nordic Controllers

Credit Clerk

Sales Ledger & Reconciliation Clerk

Master File Clerk
Typist

Source: Publications of Lombard Natwest, 1990, UK
10.4 Tiers in the Organisation

The number as well as tiers of personnel working in each section/department would, however, depend on the type and level of activities undertaken at any point of time. Nevertheless, in a competitive profession, it is always advisable to have more number of tiers at lower levels, so that elevation to the next cadre will be an incentive for the people with expertise and skills to remain in the organisation. A time-frame with sufficient flexibility to take merit into consideration should be drawn for elevation to higher cadres. For example, let us assume that there are 6 tiers in between the entry point as a Management Trainee and the highest post of Managing Director. The flow chart showing the average time-frame for movement across the career path along with the suggestive designations are given hereunder:
Management Trainee --------> Senior Project Executive
(3 years)  (2 years)

--------> Assistant Vice President --------> Vice President
(2 years)  (5 years)

--------> Senior Vice President --------> Executive Vice President
(5 years)  (3 years)

--------> Executive Director --------> Managing Director
(3 years)

This means a Management Trainee can aspire to become the Managing Director of the organisation during the tenure of his/her service, which will be an incentive for him/her to stay on.

The three major components of an organisational structure are:

(a) **Complexity**: The degree of differentiation that exists within the organisation,

(b) **Formalisation**: The extent to which an employee’s role is defined by formal documentation, and

(c) **Centralisation**: This is concerned with the dispersion of authority to make decisions within the organisation.
While designing the organisational structure, one has to keep in mind the above factors. As factoring is a specialised field and since the employees are new to this role, job specification and role definition are essential to have a smooth functioning.

The decision making is expected to be sufficiently decentralised and quick enough to attract the exporters in view of competition from banks. So the organisation has necessarily to think in terms of decentralising the power structure and decision making process by vesting sufficient discretionary powers at all levels. As in factoring organisations the world over, each department / division will have to function like an "autonomous work group" where all relevant expertise required to complete a job is available.

10.5 Types of Personnel

Factoring is a specialised financial service. It involves two types of job - (a) Financing, and (b) Providing administrative services in an efficient manner. Therefore, the personnel functioning in such an organisation should have high specialised knowledge not only regarding financing techniques to an exporter but also specialised activities related to credit management functions like sales ledger administration, setting up buyer-wise limits, collection of debts and so on. The characteristics considered critical for the personnel in such an organisation could be considered from broadly two perspectives:
(a) Cognitive abilities, and

(b) Personality characteristics.

Some of the vital and specific traits in both the above dimensions are hereunder:

**(a) Cognitive Abilities**

1. Ability to learn new tasks.
2. Ability of decision making.
3. Mental alertness.
4. Sensitivity to the changing environment (national and international).
5. Quantitative aptitude.
6. Thorough knowledge of credit management functions including financing techniques.
7. Innovativeness/creative ability.
8. Faculty of working in a computer environment.

**(b) Personality Characteristics**

1. Motivation and task involvement.
2. Concern for others (customers, subordinates and colleagues).
3. Leadership skills.
4. Self confidence and temperament.
5. Positive attitude towards work and people.
7. Adaptability.
8. General demeanour and pleasant disposition.
9. Communication skills.

10.6 Process of selection

The factoring establishments are to be highly selective in choosing the right type of personnel for manning different positions. Unfortunately in India, there is no University / College which offers specialised curriculum on credit management. Similarly, there is no recognised body or formal organisation dealing in such matters. The global experience is otherwise. For instance, the official body promoting the interests of credit staff in the UK is the Institute of Credit Management, located at Stanford. Founded in 1939 as the Institute of Creditmon, it is now nationally recognised as the representative voice of the professional credit executives in addition to being as consulted by the government and official bodies on national credit matters. The Institute has also got a scheme of enrolment of professional members either by examination or direct admission. Similar mention can be made of National Association of Credit Management (NACM) in USA which has influence in the UK and Europe, both directly and also through its European subsidiary known as Finance, Credit and International Business (FCIB). In the absence of such specialised agencies in India, recruitment may have to be made through the assistance of professional recruitment consultants by specifying the traits and other educational qualification/work experience required in the personnel.
The other issue considered vital in this regard is the process of selection of personnel for a factoring organisation which is the subsidiary of a bank. Whether persons working within the bank should be taken on deputation or the professionals and experts to be recruited from outside? Both the options have their own advantages and disadvantages. It is sometimes argued that bankers during the process of their organisational socialisation develop conservative and security-oriented approach. Change in attitude needed in a different work climate seldom takes place. But it is no denying that the bankers are also in possession of some vital skills especially with regards to public relations and financing techniques, which newly recruited outside young experts may not possess. Therefore, ideally speaking, a proper mix of the two would be preferable meaning thereby that such a subsidiary should comprise of personnel partly on deputation from the parent bank and partly through recruitment of outsiders. There cannot be, however, any stipulated ratio. Subsequently, as the operations of the organisation tend towards stabilisation, the balance can be tilted in favour of outside experts and professionals. This is how the experiment has also taken place in respect of the other subsidiaries of the Indian banks engaged in different specialised fields like merchant banking, leasing, venture capital, etc.

10.7 Training and Development

Since factoring as a concept itself is new in the Indian context, the role of training for the development of the personnel working in such an organisation need not be
over-emphasised. A comprehensive training should be given to all the executives working in the factoring organisation regarding the concepts, issues and practical operations. This can be arranged through specialised institutions like National Institute of Bank Management (NIBM), Pune, Bankers Training College (BTC), Bombay, UTI Institute of Capital Market, Bombay, etc. Some effort has already been put in. For instance at NIBM, programmes have been held to train executives in banks, financial institutions and factoring companies on factoring service.