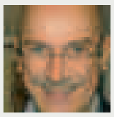
# Ask the experts:

# A question of attitude

What is the relationship between shared service centres and the treasury function?



**Olivier Brissaud, General Manager, Volkswagen Group Services SCS**

As in other business areas, shared service centres (SSCs) increasingly support the treasury function. This is particularly the case in domains such as group-wide payments and collections, cash management, hedging of commercial foreign exchange (FX) risk, in house bank functions – in fact, all those parts of treasury activity that spring to mind whenever outsourcing is mentioned.

A shared service centre can be located anywhere, but in most cases it settles in places where qualified manpower is available at a price advantage *vis à vis* headquarters and where some sort of fiscal hedge is offered by the host country to encourage such activities. Belgium, Ireland and Switzerland are typical examples in Europe. Ireland and Switzerland can ensure mild taxation schemes and on top of that Belgium can offer a liquid market for qualified professionals. Hungary and the Czech Republic are also turning into highly competitive candidates as language skills develop rapidly and the cost for manpower is still very low.

But why would a company set up a shared service centre instead of simply outsourcing the function? Fiscal reasons can be appealing but they are not enough. Establishing a shared service centre gives you a unique chance to re-engineer your treasury-related processes according to today's best practices, to unify procedures, reduce operational risks and enhance customer nearness while keeping the function in-house as opposed to outsourcing it to a bank, for instance – although it can be the first step towards an outsourcing process.

We have all come across some dreadful outsourcing stories. Most were unsuccessful because the business processes were not transparent enough when handed over to an external partner. A service level agreement cannot replace a good and clear understanding on both sides of what the partners expect from each other in terms of service.

**Jonathan Slade, Director, Capital Markets & Corporate Finance, Diageo**

In the case of Diageo, we have a financial shared service centre based in Budapest, Hungary, which supports a substantial portion of Diageo's businesses as well as corporate accounting and treasury operations.

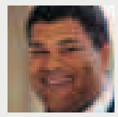
Our treasury operations were established in Budapest at the end of 2006 and are now responsible for the day-to-day cash and FX risk management and execution across Diageo, leveraging the fact that 70% of our operating profit is now accounted for in Budapest and that much of the underlying data is available from one common system: SAP.

All the treasury accounting, confirmation and payment processes are managed by the Budapest-based team. The treasury team in London, and a small team in Ireland, are responsible for treasury policies, governance, capital structure, long-term debt funding, some inter-company funding and pensions as well as external relationships with our banks.

All three locations are an integral part of a 'one team treasury' concept, and we are accountable as an entire team for delivering effective treasury processes. We therefore don't have service level agreements between each location, just a common set of agreed objectives that we collectively aim to deliver.

Establishing new ways of working as well as building strong relationships have been an important part of making the transition successful. But, in my view, perhaps the most important element of a successful relationship between a central treasury team and shared service treasury operations is one of attitude: the attitude of 'one team treasury'.

Our Budapest treasury operations cannot be considered as just part of a shared service centre. Instead, each member of the entire treasury team must consider that their treasury colleagues just happen to be based in Budapest (or London), rather than the desk next to them.



**Peter Charles, Managing Director, Peter Charles**

Treasurers are often sceptical about the benefits of shared service centres from their perspective but when they start working with them they are often pleasantly surprised by how smoothly they work.

In theory, a well-run shared service centre should simplify the life of a treasurer. Take the case of a treasurer working for a medium-sized conglomerate with different subsidiaries scattered across various territories. Once the finance function is moved to a shared service centre, the number of reporting lines should be cut drastically. That means no more dealing with a whole host of subsidiary finance directors to obtain the information that the treasury function requires.

A well-run SSC should also improve the quality of the information the treasurer receives. One instance is cash. In most businesses one of the hardest tasks facing the treasure is producing an accurate cashflow, even a short-term cashflow. With an SSC it should be possible to have an iron grip on payables and a strong idea of collections.

With cash management and working capital management of increasing concern to companies, shared service centres should be able to work closely with treasurers to accurately forecast a company's cash requirements in the short term.

Of course, there will always be downsides as well as upsides. Without an SSC, for example, the treasurer may enjoy the kudos that comes from being able to utter the line, "I'm from head office. I'm here to help."

Instead of dealing with junior subsidiary finance people, the treasurer working with an SSC structure will be negotiating with an SSC manager who may well possess equal corporate status.

However treasurers view that prospect, the fact is that SSCs are becoming an ever present reality for corporates in the 21st century and treasurers must learn to adapt.