PROVIDING THE RIGHT LINKS

DAVID BLAIR EXPLAINS HOW MAKING ALL THE RIGHT CASH MANAGEMENT MOVES HAS TRANSFORMED NOKIA INTO A MORE HOMOGENEOUS AND FOCUSED COMPANY.

Nokia Treasury's goal has always been to add value to Nokia's core businesses by actively providing financial and risk management services and advice. This applies in our core activities of funding, risk management, and cash management. In cash management, this has a strong process orientation, and we try to eliminate or simplify cash management processes for our operating companies so that they are freed to focus on the core business. The evolution of cash management at Nokia illustrates how this works.

WIDENING THE NET. In the mid 1980s, Nokia was in acquisition mode and the landscape facing treasury was extremely heterogeneous. We responded by developing a highly integrative approach. One of our first actions, following the startup of Nokia Finance in 1988, was to implement a multilateral netting system. This allowed us to get a handle on the cashflows throughout the group in a non-invasive way. The netting system did not necessitate system changes at our operating companies, but it did enable us to instill a discipline around cashflow timing and bank relations, and it proved a valuable information source for Nokia Treasury.

By gently bringing all the operating companies into netting, we created a situation where all internal cashflows occurred once a month on the netting date. This naturally enabled us to synchronise all our intercompany funding onto the monthly netting date so that we eliminated funding mismatches, and the hassle and expense they cause. In a similar way, we booked all foreign exchange hedging on the netting date, maximising the opportunities for natural exposure offset and economies of scale – seamlessly integrating commercial hedge and funding hedge transaction needs, for example.

Nokia Treasury's response to the comment from a new factory that foreign payments were taking up a lot of their time illustrates our focus on making life easier for operating companies, so that they can free up resources to cope with their core business.

We implemented vendor payments through our netting system. Our integrative approach led us to build an interface to the factory's accounts payable system, so that the solution allowed them to download invoices payable to the netting centre, which then took care of executing all their payments and sending remittance advices to their vendors. Our first remittance advices were simply netting statements that we faxed or emailed to the vendors. Now we use RosettaNet's PIP3C6 through XML. When the inevitable queries came in from the vendors, we took care of that too.

This helpful adjunct to our netting system was such a success that we ended up building interfaces to four or five different accounting systems that covered 95% of Nokia sites at the time, and our netting system became the standard payment process across the group. This kind of responsiveness requires considerable system flexibility, and within a year of starting out with a mainframe-based bank netting system we switched to using our own netting system. This gave us the flexibility to evolve with the group – which was critical during Nokia's turbulent path from conglomerate to focused telecoms company.

FROM INTEGRATION TO SEAMLESSNESS. In the late 1990s, Nokia had become focused and successful. Anticipated diversity in the mobile landscape made facilitating heterogeneous business models a priority. Borrowing from Nokia Treasury's 10 years of experience as a shared service centre (albeit, before the term became popular), Nokia's finance and control function developed what we now call our financial services platform (FSP). This is a combination of technology, processes, and people, which provides common and tailored services to all Nokia operations. Parallel developments have occurred in all Nokia's support functions.

FSP combines a single SAP box with globally standardised processes to provide a homogeneous substrate for Nokia's heterogeneous businesses. Relevant parallel developments include the decision to put all Nokia operations into one legal entity per country – a disappointment to bankers selling in-country cash pooling. This alleviated the need for Nokia Treasury to act as an integrator between separate operations, and allowed us to focus on taking the next steps to becoming seamlessly integrated into Nokia's business flows, realising the full potential of the scale economies available to Nokia.

'SEAMLESS INTEGRATION WITH THE REST OF NOKIA ALLOWS US TO MAKE OPERATING DECISIONS REGARDLESS OF TRADITIONAL FUNCTIONAL BOUNDARIES'

ACCOUNTS RECEIVABLE AND PAYABLE. Having one standard finance and control platform means one accounts receivable and one accounts payable ledger globally. Rather than maintaining multiple crude interfaces with different enterprise resource providers (ERPs), we can now focus on integrating seamlessly with SAP, knowing that FSP guarantees that all invoices are homogeneously coded and approved. Nokia BankLink (NBL) (which is what our multilateral netting system grew into) now executes all non-payroll payments for all Nokia operations globally. This includes things like employee expense reimbursements – the back office for which is conveniently also SAP.

In summary, our process downloads all invoices when they are due and approved to NBL, where they are aggregated (and netted if internal) and executed as payments in whatever manner is most efficient through the banking system. NBL sends remittance advices to the vendors, and we upload the paid invoices back into SAP to be cleared in accounts payable. All the bookkeeping is automated.

TREASURY INFORMATION. Since we now have SAP as a standard platform for all finance and related people in Nokia, Nokia Treasury has capitalised on this to use SAP as the single window for all treasury information. As described above, Nokia people no longer worry about how their invoices are paid – they simply make sure the invoices are in SAP, they approve them in SAP, they check the payment instructions in SAP's vendor master records, and they can see that the invoice is paid when it is cleared in SAP. All bank balance and transaction information is uploaded into SAP. All accounting entries for financial transactions are generated by Nokia Treasury and uploaded to SAP.

Everything treasury related that our operating companies need is delivered to them through SAP. This means staff do not have to learn and remember passwords for different banking and risk management systems, which go wrong and are hard and expensive to support. Nokia's IT department ensures that SAP's Graphical User Interface (GUI) is running properly on every workstation in the company as a matter of course, and they are trained to support SAP, so Nokia Treasury adds no additional IT overhead in the operating units.

Seamless integration with the rest of Nokia allows us to make operating decisions regardless of traditional functional boundaries. Therefore, a small treasury accounting team in Finland does all the bookkeeping and posts entries to SAP for all financial transactions executed anywhere in Nokia globally, even though most bookkeeping is handled by our FSP. This makes sense, since treasury understands the financial transactions. This kind of organisational flexibility has been a life-saver in dealing with the complications introduced by IAS 39 and FAS 133. Since all the bookkeeping for foreign exchange transactions is handled centrally by the treasury accounting shared service centre, we have been able at least to confine the pain to one place.

PAYMENT PROCESS. In the payment process, banking technology improvements allow us to send one file to Bank of America containing SWIFT, ACH, Giro, cheque, draft, and many other payment types for execution all over the world. We even throw in Chinese and Japanese character set instructions and oddities such as long beneficiary names in Thailand. Based on our philosophy of simplifying processes so that operating companies can focus on their core business, we apply a granular analysis to NBL process implementation. In particular, we separate the functional operation from the legal form. Even in countries where regulatory barriers do not allow us to fully use NBL technology, we can use part of the functionality – for instance, making payments directly onshore and excluding them from the global data pipe – to ensure that our operating companies still get the process benefits like automated bookings and one window to treasury via SAP.

BANKING COMMUNICATION. Having our own middleware – NBL is essentially a middleware sitting between SAP and the banks – has allowed us to be flexible in our banking communications. We send out several different banking files. Most global banks cannot achieve truly global coverage in one file format, often because they use different technical platforms in different regions, and for relationship and regulatory and commercial reasons we deal with more than one bank. Nonetheless, Nokia is fortunate in that we tend to sell to operators and large distributors who typically pay us from major cities. Therefore, we do not need to do the type of 'up country' collections that complicate the lives of my peers handling treasury in, for example, FMCG companies. Because of this, we do not need to work with local banks for cash management, other than in countries where regulatory barriers exclude the global banks from local currency activities.

LIQUIDITY MANAGEMENT. An extension of this seamless integration is our model for cash-free operating companies. Here, Nokia Treasury takes care of all the funding of the operating companies, so shielding them from the need to worry about liquidity management. Nokia Treasury makes sure that they have sufficient liquidity at all times and in a cost- and tax-effective manner. We are also responsible for operating company balance sheet management, ensuring that the debt-to-equity ratios remain tax effective and taking care of dividend streams. We can manage this effectively because we have online access to all our operating companies balance sheets in SAP.

Many readers will be horror stuck at the thought of cash-free operating companies being absolved of cashflow responsibility. Nothing could be further from the truth. At Nokia, everyone, from our Chairman and CEO, Jorma Ollila, down, has some portion of their bonus based on net working capital rotation. It is only because of this very strong working capital culture that we can run cash-free operating companies. People in operations are responsible for the working capital elements that they can control – receivables, payables, inventory, and capex. Nokia Treasury is responsible for the treasury part that results from the working capital – bank accounts, overdraft, deposits, loans and equity.

A GLOBAL PRESENCE. By maintaining a presence in each time zone with our treasury centres in Geneva, Singapore and Dallas, we ensure local responsiveness and in-depth local knowledge that is essential to turn the concept of cash-free operating companies into an efficient and flexible reality. On the other hand, we maintain global cohesiveness through our global virtual team – head office functional

experts work seamlessly with regional treasury centre teams to make sure global and local needs are balanced to achieve optimum value added for Nokia.

Much research has shown that virtual teams tend to fail to achieve cohesiveness. We mitigate this risk by ensuring a global distribution of responsibility, by encouraging face-to-face time, and through job rotation. To avoid a hierarchy taking over, global projects include team members from all over the world and are often led from one of the treasury centres rather than from head office. We make sure team members know each other face-to-face, even if cost considerations preclude face-to-face meetings for all but the biggest projects. And to spread understanding around the world, we encourage job rotation between the centres (and through the rest of Nokia too). At the moment, we have a person in head office who previously worked in Singapore and before that in Nokia Networks, and we have several people who have worked in two or more treasury centres. This personal and intimate knowledge and experience packs far more punch than piles of policies and procedures.

THE NEXT STEP. Nokia Treasury has evolved from integrating heterogeneous group companies to integrating seamlessly into a more homogeneous and focused company. The next step is to integrate more tightly with Nokia's value net – the web of suppliers, customers, and partners who comprise our ecosystem.

Nokia is firmly committed to RosettaNet (**www.rosettanet.org**), which is the XML standards body for the global electronics and high-tech industry. It has some 5,000 members from all over the world, grouped under different operating boards. RosettaNet has designed and implemented partner integration process (PIPs), which comprise the XML standard, as well as the process definitions about how the standard is to be used, for the whole business cycle, covering design, product information, volume planning, ordering, invoicing and now payment.

Cisco, Intel, National Semiconductor, Nokia, and Texas Instruments are sponsoring the RosettaNet Payment Milestone Program (PMP) that addresses the accounts receivable reconciliation and payment visibility issue. Many other members are participating in different ways, alongside a number of banks. Put simply, we waste a lot of time manually reconciling incoming payments to our accounts receivable ledger because the payments arrive with a woeful lack of information. Apart from the wasted man hours, this increases cycle time, causes customer frustration and delays sales. Further, from a cash management point of view, we have little visibility of incoming funds until they actually hit our account and often not until the next day. Money we own but do not know about is as good as lost float. PMP will link XML payments with the existing RosettaNet PIP3C6 (remittance advice) either by encapsulating a PIP3C6 within the payment message or by ensuring that an adequate reference field survives through the banking system. The banks have collectively created many XML standards. We are looking at a number of them, including:

- SWIFT's ePaymentsPlus (**www.swift.com**);
- Identrus' Eleanor (**www.identrus.com/products/eleanor.xml**);
- Visa's VisaCommerce (**www.visa.com**);
- the American banks' IFX (**www.ifxforum.org**); and
- bank proprietary solutions.

Unfortunately, the banks do not seem eager to implement any of their progeny after having been burnt with the dotcom crash in the late 1990s. Many banks spent millions building financial service

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engines and the like to work with the exchanges that seemed to be the model for business to business (B2B) in the late 1990s. The exchange model was an attractive one for the banks because the exchange makes a natural control point, facilitating revenue extraction. In fact, it turns out that the peer-to-peer model exemplified by RosettaNet is more scalable and efficient. This presents a fresh challenge to the banks. The hope of recovering investment dollars through an IPO is now a distant memory, and the banks naturally want to see concrete revenue prospects for any new technology implementation.

I believe that the RosettaNet community, which comprises the world's high tech and electronics companies, provides a sufficiently attractive prospective customer base to galvanise the banks into action. In any case, the sponsors have committed to implement PMP by December 2003, and we plan widespread deployment in 2004. This commitment is taken very seriously within RosettaNet and we will make this happen. I believe that once we demonstrate the considerable benefits with an active live community, XML payments will rapidly become the standard way of working.

There is a clear need and a clear business benefit, not only for the companies but also for the banks who are currently saddled with proprietary dial-up interfaces to their customers that are expensive to maintain, so we are confident we can make this work. We are working closely with TWIST (short for Treasury Workstation Integration Standards Team) **www.twiststandards.org**, where our efforts coincide. You can find out all about PMP at **www.rosettanet.org/payment**. If you are interested in working with us on this, or simply in finding out more, please contact:

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I have focused in this article primarily on payment technology because that is the topic of this Spotlight and because this is an area where the improvements are tangible. Nokia Treasury's integrative approach applies in other areas of activity including wider cash management, risk management, capital structures, and so on. Whatever the specific area of expertise, our integrative approach is a defining characteristic of Nokia Treasury – it forces us to work ever closer with Nokia's operating businesses so that we are continually challenged to add value in ways that are relevant and supportive of our underlying business.

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