# Building a cash and credit discipline

David Burns of Elenac describes how the petrochemical joint venture between Shell and BASF set up its European treasury operation.

Elenac was an idea a long time before it became reality. Shell and BASF have been cooperating in the field of polyolefins since 1953, when construction of Rheinische Olefinwerke, one of the strongest integrated petrochemicals sites in the world, commenced in Wesseling, near Bonn.

The site has been consistently successful through industry bad times and good. In the late eighties a major unit was destroyed by a vapour cloud explosion; excellent relations with the local community and with its insurers, led by Gerling, stood the company in good stead, and the plant was back to normal within three years.

Around 1995, leading strategists in the two parent companies came up with the idea of bringing all the parents' assets and know-how into a single, free-standing global company specialising in ethylene and polyethylene manufacture, in which the rivalries and cultural differences of the shareholders would be forgotten.

It took a little time to line up the preconditions for this radical extension of the scope of the joint venture. Looking back, it seems amazing that the different parts of today's Elenac – research, production, marketing, each of them replicated in a number of countries – could have been under separate management for so long; and not at all so amazing that many parts of this, one of the oldest and largest petrochemical segments, were plagued with poor results and under-investment.

### *The background*

I joined the Elenac project team in October 1997, six months before European commission approvals enabled us to start up.

At the time I was a specialist in shipping finance with Shell Trading and Shipping Company in London, better known in the oil business under its former name of SITCO, and had recently completed project financing to launch the shipping company Knightsbridge Tankers on Nasdaq. It wasn't too obvious what I was doing so far from the sea, so to speak, in the heartland of the European petrochemical industry.

But an advantage of a long career with Shell is that they move you around quite a lot, and I was familiar with the Shell chemicals business. I had even worked in petrochemicals marketing prior to joining Shell, in the teeth of the 1980-81 recession. In particular, it came as no surprise to me that the BASF-Shell management team for the proposed joint venture was looking for a 'lean' style of corporate management. This is a cyclical and extraordinarily capital-intensive business where overcapacity is usually threatening and cost competitiveness, as well as technological excellence, is vital.

Elenac is not a household name, since we sell polymer in granule form under well-established brand names to industrial customers. You cannot buy Elenac shares on any market, since the two shareholders prefer to retain ultimate control of a core business which has an influence on oil refinery economics as well as on their R&D portfolios. But this was to be a big company from day one, and under European competition rules was required to demonstrate its independence by maintaining a full array of management functions at a time when the parents were centralising management and administration functions in a quite spectacular way.

David Burns

Elenac S.A. and Elenac GmbH

**Headquarters:** Strasbourg, France and Kehl, Germany

**Ownership:** 50% BASF – 50% Shell

**Creation:** March 1998

**Turnover:** €2.2bn (1999)

**Net Worth:** €1.1bn (1999)

**Employees:** 3,100

**Market share (PE):**
Europe – No. 1
World – No. 4

BASF and Shell are currently seeking competition authority approvals for the merger of Elenac with the polypropylene specialists Montell and Targor.

Those who accepted to abandon the comparative security of the mother companies by taking a so-called 'one-way ticket' to staff up the corporate functions of the project (at that time, it didn't even have a proper name) were generally doing so out of a strong conviction that this was the most interesting place to be.

On paper the management allowed treasury a team of six in the new Strasbourg HQ, making it the largest department in the house.

This was likely to make it conspicuous rather than powerful: in our lean management culture, the esteem in which you are held by your colleagues is inversely proportional to the number of staff you maintain. Treasury segregation of duty controls, however, are not to be treated lightly. The assumption of my experienced Dutch CFO was that I would need this team in order to mount a proper corporate treasury dealing room; and that if I managed the insurance portfolio and any financing activity myself that would be about it.

The catch was that, whereas most other departments of the company had their predecessors in the constituent parts of Elenac, my five assistants were just a number on a piece of paper. As it turned out, it took me almost two years to recruit my team, a period in which I often drove my personnel department to distraction; and the balance of the team when it materialised was quite different.

We agreed that treasury would be responsible for corporate and project financing, cash management, risk management, credit and insurance. Other direct reports to the CFO were four finance departments (accounting, tax, audit and controlling), two HR departments and two IT departments.

### Business plan

There are some semantics to be cleared up. In Anglo-Saxon companies the 'controller' is in my experience a chief accountant; in French and German, the word is attached to an essentially management accounting/business analysis role, in our case one of considerable seniority, involving control over the rolling five-year business plan.

This plan, although abominable as a management process and in 1999 completely superseded by market developments before the ink was dry, is vitally important as a catalyst of business thinking. (There is also a strategic planning manager, but he has a longer-term remit and a focus on geographical step-outs).

A particularly unusual feature of our initial organisation was that the controller was responsible for procurement – something which would be perceived as a massive control risk by any Anglo-Saxon auditor – but this is not the English notion of controlling, and the association of management accounting and procurement is quite a smart move for a company like ours, for whom feedstock competitiveness is a key to success. In practice, the job proved just too big and this solution was subsequently abandoned.

> The greatest challenge now is to manage feedstock and product price risk more tightly, though we are hampered in this area by the lack of depth of the European financial markets

Treasury, on the other hand, merely means cash management in French, with the result that the French export finance specialist who joined us as deputy treasurer insists on signing off his e-mails as 'treasury and finance'. The word has no equivalent at all in German; when I cross the Rhine I find it gratifying to refer to myself as 'finanzleiter' – a perfectly accurate German translation of treasurer – though not, of course, in the hearing of my CFO.

All this might seem rather pedantic in London or Manhattan, similar to the well-known problem of introducing an industrial vice-president (typically grey-haired and wise) to a banking vice-president (typically under 30 and still damp behind the ears). But in the Tower of Babel which is today's euro-zone, close attention to the way words are understood becomes second nature for managers.

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### Centralisation

From the outset, Elenac opted for centralisation; indeed we showed a determination to treat Europe as one single economic space. Very few of our service providers have been able to respond to this challenge. It remains singularly trying, for example, to get to the last page of an expensive piece of external tax advice to find that it applies only to one nation-state, and that one is advised to repeat the exercise a dozen times in order to decide how to draft an intragroup financing contract standard, for example.

Banks, lawyers and a host of other management and financial services are little better placed. But we have persevered, and as a result I have benefit of direct line management control over my particular functions – something that many people I meet within the profession find hard to comprehend.

I thus have relatively junior but highly competent staff reporting directly to me in four locations, and on one morning this spring found myself conducting annual staff appraisals successively in Spanish and German. My main options are to maintain staff in a particular subsidiary, or to borrow part-time services from a larger local unit such as accounting or sales, or to outsource, or to carry out treasury activities from a remote location.

Provided I can demonstrate that the solution is economical and adds value, my management and shareholders give me considerable freedom to move between these solutions.

### Worldwide

At present, I manage to operate worldwide (that is, essentially, Western Europe plus a deep-sea documentary business and a small US business; we were joined by the Hoechst PE business in January 1999) with a treasury team of 10.

Much of my time is devoted to structured and project financing; we have recently obtained French government approval for a complex €500m financing, and have very interesting project financing problems to solve in the Middle East and Asia.

Cash management takes about 2.5 full-time equivalents, as does Insurance. (I remember one candidate from a very similar chemical company remarking that we wanted just one cash manager when he had a department of 10).

After careful consideration of the balance of economic exposures, we have concluded that forex hedging would not be productive at present, but we devote one person to enterprise-wide risk management – a kind of bridge between financial exposure management and insurance, with tremendous potential for strategic benefit. So far we have managed to avoid the need for a full-scale dealing-room.

The greatest challenge now is to manage feedstock and product price risk more tightly, though we are hampered in this area by the lack of depth of the relevant European financial markets.

Credit management – or, as we call it, sales finance, since it involves support to many aspects of the sales process – proves to be the area which is most hungry for resources. It is perhaps also the most challenging, since it requires a relationship of real confidence with the sales and marketing division, and if mishandled, could either cause the business to seize up entirely (as frustrated account managers find they cannot enter sales orders to the system because they are in excess of credit limits) or to sink into a morass of late payers and doubtful debts.

Since our selling prices rose by 50% in the course of 1999 and some major customers threatened cessation of payments, this function has been put to the test and has so far come through with flying colours.

At a recent team meeting I realised that all those present were now involved in some capacity in sales finance; a sign that treasury, despite the very different qualifications and background of its members, really was one discipline: the discipline of thinking cash and not profit, thinking about risks affecting the reliability of expected cashflows, and thinking about how financial service providers can be persuaded to provide a service to us, rather than merely extracting our cash in order to maintain the lifestyles to which they are accustomed.

Is the company successful? Yes, it certainly is. But we would be foolish to take that for granted. ■

*David Burns is Treasurer of Elenac and a Member of the Association.*

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