Tomorrow's world: elephants vs fleas

Treasurers of the future will need to adapt quickly as companies re-invent themselves to meet the challenges of the information age, says Richard Scase.

In the past, organisations operated with well defined operating structures. Now, this is no longer possible because of the rapid pace of change. Today's company has to be agile and constantly reinventing itself to respond to an ever changing, often turbulent, business environment. The growth of global markets, the continuous application of information and communication technologies and the permanent threat of corporate takeovers, and mergers and acquisitions compels business leaders to confront unpredictable challenges on a day-to-day basis.

Little and large

In future, the business environment will be made of even more corporate elephants and entrepreneurial fleas. The elephants will be those ever expanding, giant corporations dominating global, regional and national markets. The emergence of an expanding sector of entrepreneurial fleas will continue to irritate the elephants as they carve out for themselves profitable market niches in emerging and changing market sectors, driven by the ever evolving expectations of restless customers.

Already, we have a business environment in which small software companies located in the South Pacific compete with businesses in the south east of England to provide services to corporate clients located in Europe. UK banks are downloading their back office data processing functions to emerging entrepreneurial ventures in India and South East Asia. Financial service institutions in New York operate on a 24-hour daily basis by collaborating with business partners across time zones in Australia.

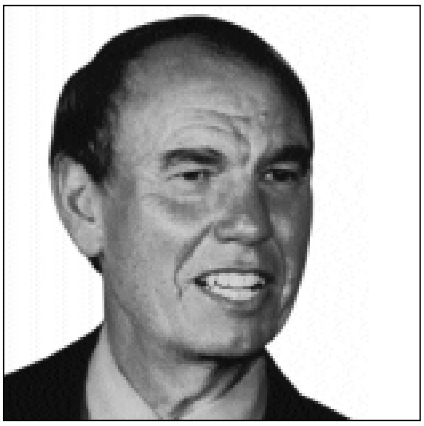
In this emerging future business world, old textbook categories that separate the economics of large and small firms, different economic sectors and the importance of geographical location no longer apply.

Knowledge employees can hold their employers to ransom simply because their intellectual capital allows them to be mobile

The core assets of companies cease to be their technologies and other tangible assets. Instead, the core competitive advantage of businesses is now intellectual capital – in other words, brain power.

Knowledge employees

The utilisation of intellectual capital – knowledge employees – allows companies to be agile by diversifying and by making profits in what, on the surface, appear to be very different product and market sectors. Witness how British Gas, for example, has evolved as a supplier of a single commodity product to a constellation of quasi-separate operating companies. Centrica now provides customer services ranging from household insurance policies, credit cards and motor vehicle recovery (through the AA).



Richard Scase

With human capital as their core asset, companies are being forced to reinvent their management cultures and their operating practices. Knowledge workers, in whatever corporate function, refuse to be 'told what to do'. They expect to be motivated through leadership, strategic vision and performance-related reward systems. If these are not in place, those who trade with their intellectual capital simply 'walk out of the door'. Witness the problems many businesses, ranging from financial services through to advertising agencies, face when this happens.

Knowledge employees can hold their employers to ransom simply because their intellectual capital allows them to be mobile. Unlike their predecessors – machinists working in large factories – their skills are not bolted to the floor. Knowledge workers, by exiting themselves, can join rival companies or even set up their own entrepreneurial ventures. There are many examples of fund managers who, through their personal 'brand reputation', have been able to do this successfully.

New models of organisation

The future corporate challenge will be to design new models of organisation. These will be ones that leverage the creative capabilities of knowledge employees for the development of innovative products and services necessary for competitive advantage. In an ever-changing business environment, companies have to innovate continuously to stave off takeover and other competitive threats.

Leveraging creativity will be the central corporate challenge. This is even more important than the application of internet technologies if companies are to survive. The internet will, of course, play a key role in the company of the future but without the full utilisation of creative human assets, the potential will not be fully realised.

For knowledge workers to be creative, it is necessary to give them autonomy in the performance of their work tasks It means they need to be free from tight hands-on management supervision. They have to be trusted to get on with their jobs through remote, flexible and other preferred working practices.

The capabilities of the internet allow for online working, but its application is hindered by the suspicion of management. They continue to subscribe to a view that unless employees 'clock in' they are not to be trusted.

Creative employees work best if they are left alone. But their efforts need to be 'ring fenced' and performance-rewarded if their potential is to be realised for the good of corporate goals. The outcome is the schizophrenic or 'split personality' corporation.

It is the setting up of these future structures that treasurers and others with financial responsibilities will take on added strategic functions.

Changing with the times

Traditionally, treasurers have been largely removed from strategic decision making processes, despite their presence at senior levels. Their tasks were those of internal auditors and of other good housekeeping practices. They were the corporate police responsible for due diligence to both internal and external regulators.

The factor accounting for this important support role was the way in which companies were structured. They were essentially bureaucracies with highly centralised reporting mechanisms.

Departmental and divisional budgets for income and expenditure were approved at 'the top' and, on the basis of these, the company was expected to operate more or less as a well-oiled machine. The job of the treasurer was to monitor these processes, to ensure that everything was in order and according to plan.

The skills required to perform these tasks were technical, expert and highly professional. Training and qualifications were needed – and still are – that allowed practitioners to have detailed knowledge of fiscal compliance, company law as well as being the 'walking repositories' of corporate best practice. It was to chief financial officers and company secretaries that company boards would turn to for expert knowledge and guidance.

> Traditional functional structures will disappear as the design of organisational processes becomes multifunctional, customer focused and project driven

But they would not look to these for key inputs into strategic decision-making processes. For treasurers, the role was to execute but not to innovate.

The centralised company hierarchies of today are evolving into the decentralised flattened structures necessary for competitive success in the future. Even the elephants, with their global brands, are reconstituting themselves as disaggregated fleas.

Each of these separate operating units, functioning as subsidiary companies, profit and loss units and cost centres are expected to achieve pre-stipulated financial targets as agreed with their parent holding companies.

The result is that companies are disbanding their traditional management backbones and substituting in their place, the principles of project leadership.

What this means is that operating processes, whether located at the corporate centre or within each of the trading units, are structured as project teams. Performance targets are agreed, as well as the human resources and time budgets necessary to complete the pre-agreed tasks. The project teams are then given the freedom to achieve their goals.

> A key consequence of the changing roles and responsibilities of CFOs and their treasury colleagues will be the need for them to develop new skill sets

This is a prevalent Anglo-American organisation model which is less used in continental Europe. One of the outcomes, incidentally, is that UK employees work longer hours than the rest of their European counterparts.

This is the outcome of an almost inevitable corporate law which is that the completion of projects always takes more time and requires more resources than was initially envisaged. The result is that project teams have to work long hours to achieve their goals. Work does not stop until the project is complete, unlike the nine to five culture on mainland Europe.

In the future company, traditional functional structures will disappear as the design of organisational processes becomes multifunctional, customer focused and project driven. With their highly decentralised structures, with business units operating as project teams, companies will be little more than 'brand umbrellas' functioning as strategic managers of a wide range of inhouse and outhouse service providers. These strategic centres will be responsible for protecting intellectual property rights, brand reputation and leveraging creativity.

It's all about teamwork

It is precisely these trends that will have a big impact upon the role of CFOs and other treasury personnel. In the future organisation, their role shifts from one of support to that of strategic engagement. For a start, the project-driven company has to be structured. Those with financial responsibilities will have the tasks of determining the targets for each project-driven operating team. They will have to work with project leaders to determine performance-related reward systems, to set up performance-related performance indicators and to ensure that these are geared to enhancing shareholder value.

The financial director's role will consist of continuous negotiation as they constantly regulate the relationship between the operational targets of the separate business units with overall company goals.

In an information-based business, the

performance of individuals is often difficult to measure. Personal reward systems and how these are related to the delivery of company objectives, is often uncertain and subject to dispute. Unless equitable rewards are seen to be in place, employees become de-motivated and uncreative, with an inevitable decline in competitive corporate performance.

A key consequence of the changing roles and responsibilities of CFOs and their treasury colleagues will be the need for them to develop new skill sets. Alongside their professional and expert competencies, they will need the ability to work with others in teams, to be able to negotiate, to explain and to communicate. They will no longer be able to operate from behind closed doors. The irony is that, in an information age with a greater corporate reliance on internet technologies, it will become even more important to work with, and to communicate with, others on a face to face basis.

The agile company of the future will put those with treasury functions at the very centre of the strategic core of these reinvented business structures.

Responding to change

In addition to their reconstructed roles within the day-to-day operations of their businesses, they will need to respond constantly to the ever-evolving pressures of a changing business environment. Mergers and acquisitions will be an ever-present feature of the business landscape.

The need to fund new business ventures and to operate through business partnerships will become more pronounced.

On top of all this, will be the challenges of valuing intellectual capital for balance sheets, takeover bids and corporate funding.

The future of the treasury function will demand new skill sets as companies reinvent themselves to meet the challenges of the information age. ■

Richard Scase is a broadcaster, columnist and a keynote speaker. He is the author of Britain in 2010: the changing business landscape *(Capstone, 2000).*

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Professor Scase is chairing the UK Treasurers Conference on 30 April - 2 May. He will manage the proceedings of this inaugural event; which is a joint venture between the UK ACT and EuroFinance Conferences.

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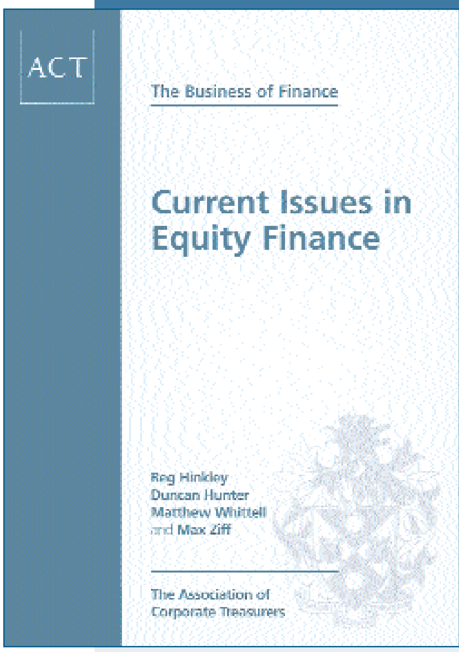

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