Tease the out tangles

Working capital management is a key factor in driving cashflow and business efficiency. In today's volatile financial environment, understanding its impact can mean the difference between a company's survival and collapse. However, there is increasing recognition that a complex interaction occurs between several elements – some straightforward, some more complicated – which treasurers need to understand to fully appreciate their position. The latest breakfast briefing in Dubai, sponsored by HSBC, saw a series of excellent presentations followed by a lively debate on various facets of working capital that engaged a capacity audience.

Fabio Scacciavillani, director of macroeconomics and statistics at the DIFC Authority, opened the morning by placing business activity in the Gulf in its wider context. His view was that although the effects of global crisis (volatility in oil prices, trade, tourism) will cloud the economic outlook and put strains on public finances in the Gulf, the policy measures taken by the regional financial authorities will enable governments to sustain economic development.

Despite the fall in economic activity in Dubai between Q2 2008 and Q2 2009 – which is now likely to have turned upward again – the regional economy has benefited from higher carbon commodity prices, sustained civil infrastructure spending and continuing foreign direct investment (albeit slower than in the preceding three years).

The authorities are looking to continue developing their financial infrastructure in bond markets (including Islamic), payments and electronic banking systems and even the prospective Gulf Monetary Union. And Dubai aims to be the regional financial hub for the greater Gulf region, perhaps stretching as far as Iraq, Iran and the Levant.

Sebastian Bretschneider of management and advisory firm AlixPartners talked about his experiences in working with underperforming and stressed firms and the simple, practical steps that businesses can follow to release cash from within their own activities. Private Gulf firms have not been unaffected by the credit crisis in terms of access to credit itself and impacts of business failure. The key structure for treasurers to follow therefore is as much about management ownership, accountability and transparency – allowing for cultural influences – as about understanding working practices (invoicing, purchase procedures and so on).

Bretschneider emphasised during the panel discussion that in his view the most important lesson to learn was that consistent execution of effective working capital management should migrate from a project approach to a day-to-day practice in the long term. This approach is summarised in Box 1.

Executive summary

- **A recent ACT Middle East breakfast briefing focused on the complex interactions between the many elements that can impact working capital. Management ownership, accountability and transparency are just as important as working practices in driving liquidity.**

Anil Berry, regional manager for the Middle East for Euler Hermes, gave a spirited presentation on trade credit insurance in the region. For the uninitiated, trade credit insurance is protection against the non-payment of trade debts by an insured or approved buyer arising from official insolvency or its equivalent, protracted delays in payment, and political risk (war, civil riots, currency inconvertibility, public sector buyer default, and so on). In Berry's view this standard picture has evolved for Gulf practice in two critical ways:

- Credit insurers spend more time talking with buyers rather than sellers (which is not common practice in the UK, for example); and
- Financial analysis of buyers is uncommon in regional culture, and credit insurers have been working on the need for cultural change in moving away from trading experience to financial analysis.

Euler Hermes' current experience is that while the incidence of default in the region is continuing, Western European markets are giving insurers a much more difficult time.

In the subsequent discussion, there was considerable comment that the first Islamic bond default earlier this year and recent

PETER MATZA REPORTS FROM ANOTHER SUCCESSFUL ACTME BREAKFAST BRIEFING IN DUBAI.

Box 1: Key factors for effective working capital projects

1. Make senior sponsorship of working capital imperative highly visible
2. Establish top-down targets and bottom-up commitment across all functions
3. Demonstrate success is measured in terms of results, not reports
4. Challenge received wisdoms
5. Prioritise, prioritise, prioritise
6. Establish clear priorities and benefit tracking
7. Integrate cash generation measures into the incentive structures

Source: AlixPartners

financial scandals have brought home to investors and companies the need for more structured financial management – a cue for some positive remarks about ACT qualifications!

The need for management discipline was supported by a further speaker, Surendra Lavti, executive director for corporate affairs at US-based petrochemicals producer Vinmar International FZE. His view was that once management understood its businesses, the setting of benchmarks for the various stages of the working capital cycle would enable treasurers to have consistent standards and accountability virtually irrespective of cultural lag.

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