

MARK KIRKLAND, GLOBAL HEAD OF FINANCIAL RISK AND CASH SERVICES, PHILIPS ELECTRONICS, TALKS TO JULIA BERRIS.

A central role

PHOTOGRAPHER: ROGER HARRIS

Adding value to the business and integrating treasury with the wider company is what is really important, according to Mark Kirkland, Global Head of Financial Risk and Cash Services at Philips Electronics.

Based in the company's Amsterdam HQ, Kirkland and his team work within the treasury department and formulate the group-wide strategy on financial hedging, devising policies and advising the Group Treasurer and Chief Financial Officer on the financial risks that Philips has.

Kirkland says: "The whole thrust of my job has been to standardise, automate and centralise many of the processing roles. Doing so effectively allows you to work more efficiently with a smaller team and to increase control required by Sarbanes-Oxley. At the same time it allows resources to really help our business grow."

Working in a European treasury department, Kirkland has experienced a lot of changes over recent years which have had a noticeable impact on his responsibilities at Philips.

Kirkland says: "The euro has been extremely helpful to us in that we don't run a basket of numerous different currencies. It was definitely far more complicated before. It has certainly been simplified a great deal."

The ethos of simplicity, which drove the introduction of the euro, has also been the driving force for a single payment environment for European countries. It's a hot topic at present, with a lot of treasurers giving thought to how it could change their company and the way treasury functions are carried out.

Kirkland says: "I think the move towards a Single Euro Payments Area [SEPA] will be extremely helpful for many corporates."

"Having said that, for Philips it is not quite the same situation because it already has a payments factory and most payments are local. By ensuring local payments are performed locally we know that they are executed as cheaply as possible."

"SEPA therefore won't help us that much but it will help many other corporates that are not so far down the road of the payments factory route."

MARKET CHANGES Kirkland highlights other changes in the market which he sees as significant to treasurers globally.

The drive towards centralisation has been a key factor in businesses and has an impact not just on treasury but on departments across the corporation.

Kirkland says: "I think there has been a key change in the market itself. The introduction of web-based platforms to hedging and foreign exchange has driven many companies to centralise and automate."

"I believe that the markets themselves have become much more open, especially in some of the emerging markets, where dealing in these countries have moved from them to one global centre."

Kirkland has had a rich and varied career and has worked in several locations in Europe and further afield, giving him a breadth of knowledge which helps him in his current position.

After achieving a First in mathematics from the University of Strathclyde, Glasgow, and a PhD in statistics, Kirkland wanted to begin a career that challenged him.

He says: "I decided that I wasn't going to be a researcher at a university but that I wanted to work in the City. I joined Merrill Lynch and worked in London as a quantitative analyst. I built models for option and swap pricing."

Kirkland then moved to Frankfurt to work on structuring derivative products before relocating to New York to head up commodity sales for Merrill Lynch.

He says: "I then moved back to London to cover Benelux and Switzerland for interest rate derivatives."

After deciding it was time for a change and a fresh challenge, Kirkland got the opportunity to work for Philips in the dealing room.

He explains: "I joined to run a consulting group. After a couple of years my position was merged with head dealer and two years ago global cash management was included."

Kirkland believes that the experience of various roles and positions since he began his career in 1989 has helped him acquire a good knowledge of different countries and how working environments can differ in a variety of ways.

He explains: "You have to be able to understand and be sensitive to cultural differences. This is especially important when you do centralisation projects, which ultimately will lead to local staff having different positions."

"There can be resistance to change, including centralisation. You have to learn how to deal with that resistance and learn what is driving their fears. This will help you a lot in these projects."

Kirkland says that treasury departments across Europe and the rest of the world are focused on centralising core functions to enable the department and the rest of the company to operate more smoothly.

Kirkland argues that the process of centralising requires a particular approach, which enables employees of local centres to see the long-term plan clearly.

He explains: "You have to get everyone on side and you have to make them understand why this is happening. It should be a very figures-based conversation. It should not focus on gut feeling or be a wishy-washy discussion."



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"You should explain why the company needs and wants to take this approach."

The most effective way of successfully carrying out a centralising project is to keep people up-to-date about it and to be clear to employees about strategies and relevant time scales.

Kirkland says: "You need to keep people informed and give them the opportunity to see the change process as an exciting project that they want to work on, rather than being concerned that they won't have a job in six months."

A DUTCH MODEL Treasury policies in Philips are devised and agreed according to a model used in business and politics across the Netherlands. The Polder model is based on making decisions via consensus and can be viewed as a fair style of decision-making.

Kirkland explains: "Many people in the company have the right to make a statement and express an opinion and have this discussed at any time. Policies therefore require a great deal of buy-in from many different areas of the company."

Consulting the wider company when devising treasury policies is not common in the UK. Most companies would employ a very different approach to policy setting.

Kirkland says that the change and contrast was extremely obvious to him when he started working for Philips.

He says: "Coming from an environment like Merrill Lynch you can imagine that it was quite a shock to me. I'm used to 'It's my way or the highway,' which tends to be a lot quicker. This process is a little more difficult to do."

"To implement new policies you need to be well prepared when

you meet the sponsors and make sure you point out the advantages they are going to reap from such a policy. This will mean that implementation is a much smoother and faster process."

All Kirkland's policies – on interest rate risk, FX, payment processes and which banks Philips does business with – are designed to fit well with the rest of the wider business. All processes are driven by centralised policies.

Kirkland says: "I enjoy the diversity of the issues I'm involved in. This is a great challenge to me. I cover the world of FX, commodity risk, interest rate risk, credit risk, equity price risk and country risk. There isn't a dull moment for me."

Kirkland has also enjoyed becoming more heavily involved in the IT aspects of treasury. With new systems being developed constantly, being knowledgeable about technology is a great advantage.

He says: "If you are constantly choosing a best-of-breed system you may end up with three or four systems sitting in the department all speaking to each other but not very well. This creates risk."

The growth and development of enterprise resource planning (ERP) systems will become increasingly important to treasury.

Kirkland says: "ERP has come a long way. If treasury is truly connected to the rest of the business you will have access to FX risk as soon as the invoice is generated. From that you can drive the hedging. You'll know the date the cash is going to hit your bank account. ERP will be the next big thing that will integrate treasury with the rest of the business."

To Kirkland, integration is the key to a successful contemporary treasury department. Keeping it simple and not getting hung on swish new instruments is vital to maintaining a healthy functioning department.

He says: "There are few circumstances where you need to use a complicated product. The banking industry tells treasurers that they need to use these new products and I think some people find it sexy to be a little different."

"There may be some benefit from using them but only in the second degree. It is a bit like using a luxury liner to cross the Channel – complete overkill."

Kirkland questions selecting anything that is outside the average, traditional set of instruments that a treasurer would use.

He says: "With simple forwards, swaps, cross-currency basis swaps, interest rate swaps, some bought currency options, fixed and floating commodity swaps, you just about have everything you need in your toolbox."

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