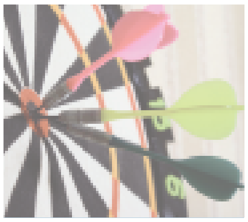


Centre of attraction

PETR POLÁK OUTLINES HIS RESEARCH INTO THE CENTRALISATION OF TREASURY MANAGEMENT.

Treasury managers in many multinational companies face huge challenges in managing transactions across multiple locations and time zones while working with many banks. The greater the geographic reach of a company, the more difficult it is to access and track accurate and timely cashflow information. At the same time, medium-sized companies that are growing in market value and size must decide how to implement the right solution for managing an increasing volume of transactions.

The centralisation of treasury activities offers companies the ability to achieve higher efficiency, and greater transparency and access to real-time information across a broad geographical area and many entities. Within the treasury function, cash management is an activity that clearly benefits from economies of scale and process re-engineering. By centralising its cash management operations, a company can manage its internal cashflows better, reduce its float and transaction fees, and pare down its operating costs. By standardising liquidity management processes, significant improvements can also be obtained in the control and security of cash.

SHARED SERVICE CENTRES The first shared service centres were developed by US companies at the end of the 1980s to maximise the return on investment in enterprise resource planning systems. Today, multinationals, especially those based in Europe and North America, are increasingly recognising the benefits they can gain from centralising their treasury and liquidity management.

As a shared service centre combines multiple tasks, processes and IT infrastructures in one central location, it represents a centralised treasury that can deliver measurable, automated, unified, transparent and efficient processes. A centralised treasury also pools highly qualified people, their skills and knowledge into one centre that lets management monitor and grow treasury operations swiftly and efficiently.

Companies that have centralised their treasury activities have done so in various ways, depending on the culture and geographic spread of their business activities. In some cases, companies prefer a central treasury function in a single location from which all treasury activities are managed. In others, the treasury function may still operate as a single operation, but with locations in different parts of the world. These regional treasury centres may be responsible for regional cash management and also allow round-the-globe access to the financial markets.

By using a single system, with the same database underlying it, the benefits of centralisation can be achieved while still maintaining more local contact with business units and local markets. Centralising business support functions such as treasury is a vital way in which a company can equip itself to build economies of scale and rationalise costs, particularly when acquiring new businesses, therefore increasing return on equity.

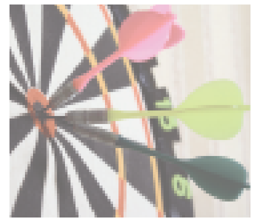
Every part of the business is continually challenged to demonstrate how it adds value to the rest of the organisation and treasury is no exception. Centralisation of treasury management is a key to achieving this by lowering the cost of debt, increasing investment return, providing expertise to business units, reducing financial risk and ensuring liquidity across the group.

In practice, there are three phases in the process of treasury centralisation:

- centralised foreign exchange and interest rate risk management;
- centralised foreign exchange and interest rate risk management, plus cash and liquidity management; and
- fully centralised treasury, including centralisation of all incoming and outgoing payments.

Most multinational companies have already centralised their treasury and cash management activities, so one of the most important issues is to find the optimal location to conduct their treasury activities from.

There are many factors to consider when searching for a



location for regional treasury centres. Among the location criteria that must be assessed before establishing a regional treasury centre are tax, educational and banking system reforms, political and economic stability, comprehensive legislation, labour force skills, strong regulatory and supervisory frameworks, central bank reporting requirements, low costs for business operations, etc.

Other possible variables in assessing the suitability of a location are city/country infrastructure (including availability, quality and cost of office spaces, access to transport links such as international airports, quality and cost of telecoms networks), language barriers, availability of expertise, availability of outsourcing options, access to key financial markets and banking centres, stability of communication networks, time zone location, notional pooling considerations, cash concentration constraints and many more.

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Petr Polák and Ivan Klusácek's book, Centralization of Treasury Management, is available from **www.businessperspectives.org**

Figure 1: The three phases of treasury centralisation