

CORPORATE STRATEGIES IN FRANCE HAVE WITNESSED A SEA CHANGE WITH NEW E-BUSINESS AS MARTINE GOUBERT EXPLAINS.

FRANCE FEELS THE WINDS



Gross domestic product (GDP) in France grew by 0.8% in the first quarter of 2004, indicating that the country's economic recovery is gathering pace. Since mid-2003, the upswing has been rapid, with all three quarters witnessing growth in line with, or above, expectations (about 0.5-0.6%) quarter-on-quarter – the best record since 2000.

The recovery in France has been stronger than in the euro zone, primarily because of growth in domestic demand; growth in the rest of Europe has been exports-led.

The upturn in investment has also gained momentum, with increased corporate investment and investment in housing. The French Balance of Payments, however, has been adversely impacted as imports continue to outpace exports. Although the euro's appreciation has softened, its strength is impacting European competitiveness, and more particularly, French competitiveness overseas.

In 2004, growth looks set to slow down before year-end. The growth in business investment might continue but a slow-down in household spending may result from higher unemployment and rising inflation.

Expected growth of slightly above 2% for 2004 exceeds the hypothesis of the Finance Act (1.7%) and should help to reduce the budget deficit by increasing tax revenues.

The upturn in activity and the freezing of existing government budget allocations at €7bn should keep the central government deficit under the forecasted €55bn. All in all, the fiscal deficit is likely to decrease slightly in 2004 – down to about 4% of GDP.

EMPLOYMENT ISSUES IN FRANCE. The French government is currently drafting a national social cohesion plan, which, in its employment section, lays down a new set of measures to make sure that unemployed people living on benefit in France actually endeavour to find new jobs.

The debate about the working week has also been revived in France, in much the same way as it has been in Germany – two countries where the working week is noticeably shorter. Legislation limiting the working week's length to 35 hours is not going to change, but its application may. In January 2003, authorised over-time was increased from 130 to 180 hours per person a year. There are also plans to reduce additional pay for overtime.

Another major area of concern in relation to employment is that the EU's enlargement will result in industrial relocation to the new member states – notably, because of their lower wages and more flexible working conditions.

E-BUSINESS IN FRANCE. In France, as in the rest of Europe, corporate strategies have been dramatically changed with the advent of electronic business and new regulatory constraints.

Companies realise that they must grasp the opportunities electronic trade presents and work with their suppliers and partners in a real-time and interactive environment. Ultimately, the ability to do this will have a decisive effect on their competitiveness.

Cash management in particular is experiencing rapid changes in line with technological developments linked to the internet, as well as the demands made of a global economy in terms of productivity, coherence, transparency and security.

At a technical level, the services made available to corporates are being diversified, and new software is being developed by application service providers (ASPs) to meet their new requirements. This has



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SOLUTIONS AND REGULATIONS COVERING CORPORATE GOVERNANCE AND ACCOUNTING,

OF CHANGE

lead to greater flexibility in the information systems already used or being developed by French companies. Internet technologies are providing small firms and subsidiary operations with access to services that were previously the reserve of larger corporates. The latter, meanwhile, have become more sophisticated in their requirements, and are looking for solutions that are more flexible and offer greater functionality.

For the bulk processing of cash management operations – third-party domestic transfers, cross-border payment orders, collections, and so on – companies are especially interested in added-value services which improve the traceability of transactions. Every deal

must be followed in as close as possible to real-time. It is also important to automatically match operations against projected cashflows, and integrate them into enterprise resource planning (ERP) accounting systems.

In many companies, the real-time matching of data is taken for granted and constitutes the basis of a cash management assistance service. But

Impact of new accounting standards

The new International Accounting Standards (IAS) are also revolutionising accounting in France, with the movement from a historic approach of accounting to a risk-based approach. Corporates must now reconsider their hedging policies to ensure that exposure to financial risks is properly hedged without this provoking excessive volatility in their results.

Transactions processed by the corporate treasury department can no longer be considered separately from the underlying commercial hedging requirements. In every the company, detailed documentation is now required to record how exposures and the hedging instruments used match to ensure appropriate accounting treatment under IAS 39.a.

All these changes have brought considerable consequences for French companies and their treasurers. But the new regulations also provide treasurers with a good opportunity to get more involved with their underlying businesses. Many of them have had to totally, or partially, re-engineer their operations to make them more effective and to enable automatic integration between information systems, profit centres, treasury and accounting.

although companies today want to see online transactions that are standardised and secured through time, depending on the geographic zones in which they operate, paper media and cheques are also often still used to meet specific needs.

IMPROVED CONTROL OF RISKS. The more a company operates in different geographical zones, the more difficult it is to keep risks under control. In the context of reinforced regulations, both in terms of laws and new accounting standards, it has to introduce strict audit procedures. To do this, it needs a cash management service which is as homogeneous as possible, that covers all the territories in which it operates.

Although solutions for pooling cash positions are increasingly effective when it comes to processing service data from several countries, they still have to be standardised. For example, when receiving account statements and transaction notices, corporates need homogeneous solutions which can be automatically passed on to their audit systems and the information systems used by different departments.

The integration of information systems within companies is leading to the introduction of interactive, automated links between accounts, cash management and the business itself. This development is part of a vast re-engineering of many organisations which has seen many of their functional financial tasks grouped in Shared Service Centres (SSC) (see *Getting a fair share*, page 32). SSCs are very dependent on new information technologies and are also in a very good position to exploit the opportunities presented by e-business. ASP solutions offer various levels of services that can be accessed by different players, such as SSCs and subsidiaries, which must be in regular contact with the corporate treasury department.

For corporate treasurers today, another important objective is to find banking partners which can meet their demands for transparency, traceability and multi-system integration while providing data that can be shared by several players, dispersed throughout a company. Banks must be able to offer standards that are adapted and shared by different business sectors, and propose efficient solutions that ease the constraints linked to local characteristics, both at a technical and regulatory level.

LEGAL AND REGULATORY CHALLENGE. French corporates also face a number of legal and regulatory challenges. The Sarbanes-Oxley Act (SOX), which applies to US-listed companies, and the Financial Security Act (FSA) in France, reinforce the principles of corporate governance and stipulate the personal liabilities of directors, with finance directors taking the front line.

Another important issue, in the context of EU enlargement, is the introduction of the Single European Payment Area (SEPA) as part of the 2005-2010 European Financial Services Action Plan. This will involve high investment for French banks if the new payment systems proposed are to replace the current local clearing systems which handle more than 90% of payments at local level. The phenomenon is amplified by new accounting standards which demand more transparency for operations and accounting.

Martine Goubert is Senior Adviser at BNP Paribas Cash Management. martine.goubert@bnpparibas.com
www.bnpparibas.com