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**Factors to consider when centralising cash management**

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Cash management is at the core of financial and treasury management. In fact, no other Finance function is more crucial, nor has the potential to have such immediate effects on a corporation. The repercussions of the Global Financial Crisis of 2008 demonstrated the strategic importance of liquidity and the corporate treasury function, in particular cash management, to the smooth operation of business.

The general view is that the treasury function should be centralised – and it is understood among practitioners that a highly centralised treasury function for the majority of treasury tasks is most efficient and favourable. What’s more, various studies on the subject clearly demonstrate a trend towards centralisation. However, in reality, the degree of centralisation is often very different from that suggested by theoretical research.

Indeed, in a landscape of constant change and development, a multitude of challenges lie ahead for cash management practices. Centralising treasury functions, especially across countries and continents, can be hindered by many things. The key to success, therefore, is the ability to identify hindrances and remove them on a company-by-company basis.

This article provides insights and recommendations on what and whether to centralise and what factors to consider in order to achieve the desired outcomes.

**Current and ideal set-up influences**

Very little academic analysis of the current and ideal set up of cash management has been carried out, which makes it difficult to analyse the current ‘centralisation status’ of cash management.

What can be observed is that few corporate treasuries already operate with a fully centralised cash management set-up. However, many and most corporate treasury departments operate with some degree of centralised organisational set-up. One would expect that the drivers and factors for centralising need to be understood in order to support centralisation efforts in cash management.

**To centralise, or not?**

The need for effective Cnancial management has never been greater, according to Heiden (2007) “Today, perhaps more than ever, organizations of all sizes and across all industries face significant pressures as they grow their businesses in a competitive and increasingly global economy. These organisations are constantly reorganizing and restructuring in response to economic conditions, global expansion, an onslaught of new technologies and other factors beyond their control.”

Yet, given the enormous diversity of business operations for many larger companies, the decision on whether to centralise or decentralise is complicated by the advantages and disadvantages of these actions.

Centralisation can lead to benefits from the effective management of cash flows and liquidity in an organisation and thereby enable firms to maximise returns on invested capital. In addition, risks that could affect the firm are well managed. Given the benefits, while centralisation of treasury management has particularly occurred in the cash management function, the practice is spreading. Not only have organisations centralised cash management as a function of treasury management, other functions of treasury management such as risk management and assets and liabilities management have also been centralised.

The key beneCts of centralisation are perhaps best defined as:

* Strategic benefits
* Economies of scale
* Concentration of specialised knowledge and skills
* Foreign exchange (FOREX) management
* Financial control
* Smaller ‘idle’ cash balances.

In spite of the benefits derived from centralising treasury management,Heeks (1999) does not believe that a centralised approach can execute its obligations. He identifies centralised treasury management as being inflexible due to the bureaucratic and distant decision-making processes.

His concerns are confirmed by Polak (2010) who indicates that in subsidiaries of multinational organisations it takes too long for treasurers to make decisions.

The advantages of a decentralised approach can also be identified by the disadvantages of centralisation, including less flexibility and responsiveness to local needs, increased bureaucracy, and performance evaluation requirements of local units.

**Motives and factors influencing the decision and**  **ability of centralising**

Different motives exist for centralising cash management. The background might be different due to regulation, company culture and Cnancial situation, but the key drivers are:

* Active cash management
* Visibility of cash positions
* Better control and use of cash positions
* Cost reductions and benefits of scale
* Operational efficiency
* Standardisation and prfiCt orientation.

Several factors inUuencing the decision and process of centralization have already been identiCed. Aucoin and Bakvis (1988)) mention some of these factors in The Centralization-Decentralization Conundrum, which focuses more on the connections with government. Environment and power are thereby regarded as determinants of centralisation, where ministers try to act responsibly in order to facilitate decision-making.

Based on the reviewed literature, the following factors affect the centralisation of the corporate treasury function:

* Tax implications
* Legal implications
* Central banking requirements/reporting
* Accounting implications
* Business requirements
* Access to financial markets
* Compliance implications
* Technological infrastructure
* Banking (infra)structure and relationships
* Company culture
* Staffing (costs and qualiCcations)
* Staff training
* Staff motivation
* Cost savings.

When planning for centralising corporate treasury functions, the legal and tax implications must be taken into consideration. The legal structures and tax incentives presented to foreign companies, and the tax implications of the different types of legal entities that can be incorporated in a country, are the main determinants of where and how to incorporate offshore entities, and hence whether to centralise.

Financial markets require a suitable regulatory, legal and judicial framework that establishes, with the greatest possible certainty, the rights and obligations of parties to financial transactions, and provides disclosure and other requirements. When assessing, for example, the optimal cash management structure, a company must consider legal and regulatory issues, the impact of the revised structure on its tax situation, and the administration required to maintain the structure.

Given the importance of information in finance management, it is not surprising that finance departments were among the earliest adopters of information processing technology. Technology proved to be a driver and enabler of centralization. Consolidating organisations often creates redundant groups or functions. While having the right number of staff is vital, extra attention should be paid to making sure the positions are filled with people who have the right combination of talent, knowledge, experience and training. One also has to consider that a too strong focus on rationalization can hinder or even fail to attract highly-qualified specialists required for vital knowledge centres, such as treasury departments.

**Views among treasury practitioners**

A variety of challenges and factors influence a corporate treasury department’s decision to become centralised to achieve the best access to liquidity and transparency and management of risk, while considering the practicality of various organisational models. Interviews with 20 treasury experts (presenting specific perspectives: corporate, bank, consultants and system providers) were integral to the investigation process in this academic research on the centralisation of cash management in European multinational companies.

It became obvious from the interviews that there is a distinction between strategic and operational aspects of cash management. In this sense, there is not “one cash management perspective” – this is true even in regard to the various cash management tasks. The majority supported centralising, although it was not a consensus due to there being different interpretations of what centralisation means. The definition can range from the relocation of functions to sharing a service centre. In particular, the understanding of disagreeing interviewees followed the reasoning that just because one does something from a central point or hub does not make it better.

**Conclusion**

The research has shown that efficient cash management is becoming more important among corporations, and that an effective organizational set-up is essential. The interviews conducted have shown that the perception and understanding of cash management differs not only among treasury experts but also between academics and practitioners.

With the business landscape and structures becoming more complex, European corporations and their treasuries have been transformed, emphasising the centralisation of activities within the treasury functions.Currently, the role of corporate treasurer(https://www.theglobaltreasurer.com/category/corporate-treasury/) is advancing and centralisation has become more significant. It has also become clear that centralization does not necessarily mean organizational centralisation but may refer to information centralisation.

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