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ASIA



Embracing complexity

The Asian economic landscape has changed significantly over the past decade. While the evolution is welcome, these developments have contributed to an altered landscape for treasurers working in the region, making efficient cash management much more complex.



The Corporate View

Chaoqun Gao

Treasury Manager China
Heraeus

Asia Practice

Overcoming the language barrier

Treasury Trends

South-South trade



Women in Treasury

Sophia Porcelli

Director Treasury Asia Pacific
AkzoNobel

Country Focus

Japan

Back to Basics

Treasury management systems

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Welcome to our new publication – Treasury Today Asia

Treasury Today Asia is the new, bi-monthly magazine by the publishers of Treasury Today in response to the many requests we have received to broaden the coverage of Treasury Today in China to include the rest of Asia. The new magazine reflects the trends, challenges and opportunities for treasury/finance professionals in the Asia Pacific region.

Each edition of this BPA audited bi-monthly publication will have a specific country focus and includes articles providing relevant insight and analysis through independent editorial content.

Treasury Today Asia combines our extensive knowledge of the region through our work with Treasury Today in China and our ground-breaking Benchmarking Studies in Asia Pacific and specifically in China.

If you are a corporate based in Asia Pacific – register NOW at www.treasurytodayasia.com so we can give you:

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The team at Treasury Today Asia are excited to be bringing you our analysis of the latest developments in treasury throughout 2013.



Eastern aspirations

As the Asian landscape is composed of many diverse markets at different stages of development, companies operating in Asia – both MNCs and domestic – must be prepared to combat a number of different challenges. How will this affect the treasurer's role?

COUNTRY FOCUS

20

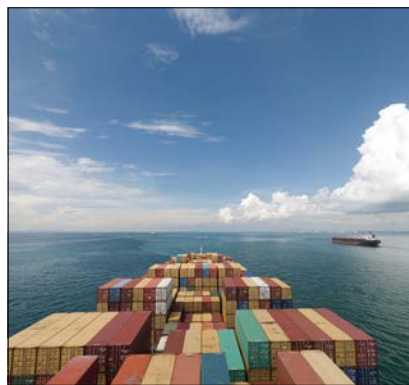


Japan

Despite decades of stagnation and low growth, Japan remains the world's third largest economy by GDP. The recent election victory of the Liberal Democratic Party (LDP) raises expectations of aggressive fiscal and monetary expansion. What is the state of play within the Japanese corporate treasury environment?

TREASURY TRENDS

25



South-South trade: opportunity shifts east

Asia accounts for over 80% of all South-South exports, and nearly three-quarters of this figure can be attributed to Asian countries trading with each other. China is acting as the centre of gravity for a new pattern of commerce stimulated by rapid urbanisation rates and infrastructural developments.

ASIA PRACTICE

28



Overcoming the language barrier

What's in a word? The spoken language includes a whole range of cultural and sociological symbols. While expansion both into and across the region appears attractive, companies operating in Asia must contend with a number of linguistic and cultural challenges.

BUSINESS BRIEFING



From practitioner to strategic partner: the treasurer's evolving role

Members of the C-suite are becoming increasingly focused on the perception of their brand, customer satisfaction, and how this can affect revenues. As such, treasurers must increasingly think with a commercial mind.

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SUSTAINABILITY 37

Sustainability: it's the business

Today corporates are paying greater attention to the 'three Ps' – profits, people and the planet – as embracing corporate sustainability can benefit the bottom line. How does a company put a workable sustainability programme in place?



RISK MANAGEMENT 34

Safeguarding your reputation

Not all publicity is good publicity and protecting your company's brand can be a bit like fighting fires on all sides. But treasury has a central role to play in bringing together an enterprise-wide risk response plan that can be put into action.



TREASURY ESSENTIALS

Treasury Insights	4
Question Answered	11
Market View	13
The Bigger Picture	23
Back to Basics	41
Calculator Corner	43



31 The Corporate View

Chaoqun Gao
Treasury Manager China

Heraeus

Germany-based Heraeus' Chinese regional centre, and its corresponding treasury function, has been built up from an entirely clean slate. In this interview, inaugural Treasury Manager China, Chaoqun Gao, explains how the global treasury function embarked on a centralisation project, which included reducing the number of core banking relationships, and highlights the growth potential for Asia.

WOMEN IN TREASURY 6

Sophia Porcelli
Director Treasury Asia Pacific



Sophia Porcelli has been involved with the transformation of AkzoNobel's Asian treasury operations as an integral part of the group's mandate.



These pages contain edited versions of a few of the Treasury Insight pieces written in the last month. The full versions are posted on treasurytoday.com as they are ready. The Treasury Insights weekly email summarises the new pieces from that week plus other news relevant to treasury. You can register for this free service at treasurytoday.com

Asia Pacific Regional Award for Best Practice

Submit an entry and have your efforts and achievements recognised

This inaugural issue of Treasury Today Asia provides the perfect opportunity to showcase Treasury Today's annual Adam Smith Awards. In the five years since they were launched, these Awards are now acknowledged as the global benchmark for real innovation, best practice and sheer excellence in the world of corporate treasury. Previous winners include Google, Honeywell, Microsoft, Merck and Toyota Financial Services.

The Adam Smith Awards cover an array of treasury areas as evidenced by the broad range of categories in which nominations are accepted. From bank relations, foreign exchange (FX) and risk management to debt capital markets, technology and benchmarking, the growing remit of the treasury function is fully covered. For full details of all the categories please see page 19.

However, whilst readers of our Treasury Today Asia publication are not precluded from submitting an entry under any of the above Award categories, we wish to specifically recognise best practice in the Asia Pacific region. We have, therefore, included an additional category in this year's programme – the Asia Pacific Regional Award for Best Practice.

Open to any corporate operating in the region irrespective of geography, size, industry sector or treasury structure you do not need to be a major multinational company to qualify. Quite simply, we are looking for innovative solutions that have been implemented, or are in the process of being implemented, in the corporate treasury arena in Asia.

We wish to profile the 'best-in-class' solutions that recognise the growing importance of this dynamic region. The nomination could be a single, multi-country or truly pan-regional solution; all we require is that the nomination must demonstrate best practice. It can be any solution in the treasury arena that goes beyond the norm perhaps being deployed by a regional treasury centre, shared services centre (SSC), re-invoicing centre or payment factory in the region.

Please submit your entry – all you need to do is complete the simple nomination form which is available online from 31st January at treasurytoday.com/adamsmith

If you have any questions and/or require any additional information, please email awards2013@treasurytoday.com

Pay up! Pay up! And play the game!

By now, the global credit markets should know all about Argentina's refusal to pay investors the \$1.3 billion it owes in interest stemming from its sovereign debt default in 2002. Traditionally, sovereign borrowers have been willing to pay investors as much of the funds owed as they could in order to maintain access to the capital markets, says Tom Byrne, Director of Fixed Income at Wealth Strategies & Management LLC (and publisher of the outspoken Bond Squad market commentary). In the case of Argentina, however, he feels it has no need to access the capital markets at the present time and the decision not to pay has been taken simply because 'it does not wish to do so'.

The danger, Byrne says, arises if a few more of the emerging economies with "less than democratic leadership" feel that if they don't need to tap the capital markets in the immediate future – they too could "play hard ball" with creditors.

Of course, few would expect the likes of the US or UK to default on debt. The problem is that when investors get hungry for yield they start to paint sovereigns "with a broad brush". Since 2010, many investors have become increasingly de-sensitised to risk, he states. But there is a difference between high yield and junk, explains Byrne. High yield is from a debtor that is "economically viable". But then you have the real junk, and these are the countries or companies that are living on the razor's edge. If anything unbalances them, they will default." And it is this understanding, he says, that is being de-sensitised.

Whilst Byrne does not believe that Argentina's actions will result in an exodus from bonds out of emerging markets, it should cause investors to "lighten up", especially on the weaker credits. Investors looking at a high yielding sovereigns or corporates should, he argues, judge each on its own merit and not take it simply because it's "in the right asset class". But he adds that common sense can "go out the window when you're not generating enough income for your needs".

The de-sensitisation to risk is gradual. If risk deteriorates rapidly, it's easy to see and investors will be quick to bail out. But unless each investment is considered on its own merit, each successive definition of tolerance can degrade slightly on the previous without anyone realising it. If this happens, Byrne points out that it doesn't take long before the overall quality of an investor's portfolio is far below where it should be. "It's like boiling a frog; you turn the heat up gradually so it doesn't jump out of the water. If you put a frog in boiling water, it will jump; heat the water slowly and it won't realise its being cooked until it's too late."

<http://treasurytoday.com/2012/12/pay-up-pay-up-and-play-the-game>

No last orders for Suntory

Junko Anami, Manager, Finance Department, Finance and Accounting Division at Osaka-based Suntory Holdings Limited, one of the oldest distributors of alcoholic beverages in Japan, has found that high levels of government debt and credit downgrades have increased the cost of borrowing for Japanese corporates. As such, she says the cash management space “is still an important priority on the corporate agenda that needs to be tackled – not only for us but also for most of the corporates in Japan”.

The brewery, which has expanded into other retail areas including food, has an existing domestic cash management scheme which is well-established, but its overseas operations are not as advanced, particularly within southeast Asia where the company conducts most of its activities. “Our next project is determining how to build a scheme for overseas cash management which works as efficiently as the domestic one,” says Anami.

In Osaka’s regional hub, the treasury team of 16 is divided into two groups: the front office, which takes care of trade execution, and the middle/back office, which handles both pre- and post- trade execution checks and risk management. For its overseas operations, according to Kazuya Sugita, Group Finance Department, Finance and Accounting Division, the company’s finance hubs in London and New York take care of business in the Western regions, but also stay in frequent communication with the Japanese HQ.

Globally, Suntory has three separate cash pooling structures in place: one is for Japanese domestic flows; one is for the European region, in euro and British pounds; and the other is the New York office in US dollars. The company uses varying bank pooling services, depending on location, to accommodate its requirements.

This risk-adverse company has diversified its credit avenues to ensure that it can get the cash from the market when it needs it, which explains the ratio of its debt portfolio standing at 60:40 for loans and corporate bonds respectively, says Sugita.

For the management of trade, the finance team looks at the balances of those debts on a monthly basis, pulling out the necessary data from the treasury management system (TMS) on a quarterly basis. “We then analyse our portfolio, determining whether the best interest rate to opt for should be a fixed rate or a floating rate, for example. Most of our portfolio is domestic as we fund in the domestic market, but we do some loans outside of Japan. For those, we get the information via Excel on a monthly basis,” Sugita explains.

Plans to optimise the company’s cash globally involve centralising cash in order to have visibility of funds so that the overflow can be used for other purposes. New acquisitions may already have a TMS or an existing cash management scheme in-house, but by having an existing global infrastructure in Suntory, merging multiple treasuries together “will be completed more smoothly,” Anami concludes.

<http://treasurytoday.com/2012/12/no-last-orders-for-japans-suntory>

Sluggish start to 2013, but global economy to pick up steam

After a dip in the first quarter, the global economy will stabilise and begin a gradual recovery in the second half of 2013, predicts Bank of America Merrill Lynch Global Research.

A cloud of uncertainty is likely to overhang the global markets in 1Q13 through a painful and protracted resolution of the US fiscal cliff. However, global economic growth is expected to improve in the second half of the year, ultimately pushing the S&P 500 Index to 1600, a new all-time high, according to Bank of America Merrill Lynch’s Global Research in its 2013 Year Ahead market outlook.

The bank’s analysts expect the resolution of fiscal policy issues, another year of accommodative central bank actions and improving corporate profits to skew the macro and market risks to the upside. They believe that the year ahead could be “lucky 13” for cautious investors, as the beginning stages of a “great rotation” in the markets from bonds to equities create opportunities for cyclical and undervalued asset classes poised for recovery.

Its research has outlined ten macro calls on which it is basing its 2013 outlook:

1. The global economy is expected to grow 3.2%, gradually improving through the year, led by China and the US.
2. Monetary easing may not be enough to offset fiscal contraction in the first part of the year.
3. The US housing recovery builds momentum, rising another 3% in 2013, adding to the 5% gain in 2012.
4. With support to Spain from the European Central Bank (ECB), the European economy should stabilise as the year progresses.
5. GDP growth in emerging markets is expected to recover to 5.2%, led by the BRIC economies, particularly China. Rising inflation could leave emerging market policymakers with little room to ease, particularly Turkey and central and eastern Europe.
6. Global equities should be the best-performing asset class.
7. The US dollar and euro could rally on the global recovery and greater fiscal clarity, pushing the yen lower and emerging market currencies higher.
8. High yield and emerging market bonds should outperform corporate credit.
9. Government bond yields should rise modestly.
10. Gold could rise to \$2,000 per ounce.

<http://treasurytoday.com/2012/12/sluggish-start-to-2013-but-global-economy-to-pick-up>

Blazing a diversity trail

Whilst the treasury profession remains largely male-dominated, there are remarkable women enjoying remarkable careers. The Women in Treasury series will recognise female innovators in the corporate treasury profession. The initiative aims to bring women together to share their experiences, challenges, successes and failures, as an inspiration for all operating in this field.

The press is rife with articles outlining how the treasurer has a new and important role within an organisation. But it is not the traditional treasurer who can fulfil these demands, argues Carole Berndt, Head of Global Transaction Services EMEA, Bank of America Merrill Lynch. “The new treasurer has to be able to manage this environment where crisis is business as usual. They will need to have an extreme attention to detail and the things they must manage, such as operational, liquidity and market risk, need to be married with the ability to think strategically and creatively.”

The new treasurer will also need to be a good communicator, effectively co-ordinating the different business lines and functions and promoting collaboration and co-operation across the company. Although not risk-averse, the new treasurer must have a level-head and appropriately weight risk versus opportunity. They must also have the ability to listen and understand the business, and create tailor-made solutions to meet those business needs.

Many of these traits are more commonly associated with women than with men, yet it is shocking to see how few women there are in treasury. A female Director of Corporate Treasury, who asked not to be named, recounted her disappointment with the gender composition at industry conferences. Not only are there only a few female treasurers on the conference floor, but there are next to none participating on the panels or leading the workshops.

Yet the role treasury plays in an organisation makes it a very dynamic space for women to work in, according to Eileen Zicchino, Managing Director and Chief Marketing Officer (CMO), J.P. Morgan Treasury Services. “The treasury function is at the heart of every organisation – wise decisions made there have dramatic and positive impacts on the health of the entire company, and consequently on all the people of that company.”

The Director of Corporate Treasury believes that women need to be much more visible in their roles, both inside and outside of their organisation. While women are notoriously bad at promoting themselves, the Women in Treasury series in Treasury Today and Treasury Today Asia aims to help bridge this gap by profiling female trendsetters on a bi-monthly basis. Each article will look at professional development and career-defining moments, as well as providing advice to those just starting out in the profession.

“Women in all industries and professions can benefit from obtaining insight into other female professionals – on a personal and professional level,” says Christina Easton, Principal at Treasury Dynamics LLC, based in Clyde Hill, WA. “The opportunity to read profiles of women in similar positions, industries or perhaps in more senior positions than your own, provides the practitioner with ‘a-ha’ moments, ideas, courage and inspiration for change.”

Julia Persson, Deputy Head of Corporate Treasury, A.P. Moller–Maersk Group, is enthusiastic about the initiative because “it is good to know that other women have succeeded in the same field and the series identifies role models to look up to”. She is particularly interested in the problem-solving aspect of the profiles. “Most of the issues are probably not gender-specific, but this series could illustrate a different approach to solutions.”

Gender challenges

It is evident that women still face specific challenges at work. The pay gap is a stubbornly pervasive problem. A recent Chartered Management Institute (CMI) survey showed that the average gender pay gap for executive level positions is more than £10,000 a year, while women receive less than half what men are given in bonus payments. CMI estimates that the average female executive suffers a lifetime earnings gap of £423,390 when compared to a male worker with an identical career path.

Climbing the corporate ladder is a challenge for many women as they become parents or need to care for their ageing parents or other loved ones. Women are still the primary parent responsible for childcare, although social norms are slowly shifting. A tri-regional survey predicting gender composition in 50 years’ time, conducted by HSBC on the 100th anniversary of International Women’s Day (8th March 2011), found that 60% of the respondents globally think that childcare will be split 50/50 between men and women by 2060. The regional variation was illuminating: 70% believed this in Asia, while just over half thought this was possible in the US and the UK.

Many women are successful in managing the demands of a family and a successful career, and others want to learn from their experience. “I find it inspiring to hear from others as to how they balance work/life requirements and still enjoy a stimulating career,” says Easton. Marie-Astrid Dubois, Assistant Treasurer EMEA and Asia, Honeywell, holds Christine Lagarde, Managing Director of the IMF, in high esteem for exactly this reason.

But many women, whether they are mothers or not, are frequently overlooked for promotion opportunities. According to a 2012 Catalyst report, women get fewer of the high visibility, mission-critical roles and international experiences – the so-called ‘hot jobs’ – that are key to getting ahead at global companies and may be an underlying cause of the persistent gender gap at senior levels.

Diversity: the new status quo

The concept of setting a quota for women in executive positions has been hotly debated for a number of decades. Former banker Mervyn Davies brought it back into the spotlight in March 2011, when he called on FTSE 100 companies to increase the percentage of females at Board level from 12.5% to 25% by 2015. More recently, EU Justice Commissioner Viviane Reding brought a proposal to the European Commission (EC) in October 2012 to impose a 40% quota for women non-executive directors on the Boards of listed companies by 2020, but this was opposed by several countries.

The attempt to legislate change is a response to the fact that the number of women in senior positions remains persistently low. The Cranfield School of Management's 2012 Female FTSE Report shows that the overall percentage of FTSE-100 directors who are female is 15% – and this is an increase of 2.5% on the past three years.

Interestingly, the debate has shifted from an issue of equality to a question of better performance. Bank of America Merrill Lynch's Berndt argues that companies perform better when they include the best people from a range of perspectives and backgrounds. "A greater propensity to find new solutions is the key advantage of diversity," she explains. "Having a range of people, whether gender, cultural or nationality, generates fresh ideas, different perspectives and promotes much more innovation and creativity than a uniform group."

A number of studies support Berndt's argument and have found a correlation between high-performing companies and those with strong female representation at the top. According to McKinsey, the findings were startlingly consistent: for companies ranking in the top quartile of executive-board diversity, ROEs were 53% higher, on average, than they were for those in the bottom quartile.

Research by the Credit Suisse Research Institute found that shares of companies with a market capitalisation of more than \$10 billion and with women Board members outperformed comparable businesses with all-male Boards by 26% worldwide over a period of six years. The report identified six key reasons why greater gender diversity could be correlated with stronger corporate performance, including a better mix of leadership skills, access to a wider talent pool and improved corporate governance.

Talent pipeline

The debate is not just about getting more women onto the Board but making it possible for women to reach their full potential within an organisation, instead of reaching a glass ceiling or being pushed off a glass cliff. As Ann Francke, CMI CEO, said: "Women make up almost three out of four at the bottom of the ladder but only one out of four at the top. This lack of a strong talent pipeline has to change, and fast."

McKinsey reports that of the 235 European companies it surveyed, more than 60% said that they have at least 20 gender diversity initiatives in place. It singled out adidas as a success story, a company that ranked in its top quartile in diversity and performance. Senior leaders have designated diversity as a strategic goal and started building it into the 'guts of the organisation', setting a goal of 35% of all managers by 2015. The effort is supported by numerous policies, including gender-balanced recruiting, childcare assistance, and flexi- and part-time work opportunities.

The Cranfield School of Management's report also highlighted a few outstanding corporate initiatives. Diageo, which has the highest percentage of women on its Board (44.4%), including the CFO, encourages "flexibility of career paths, with the ability to step on and off the fast track, and multiple opportunities to connect with diverse role models". It also has an internal networking and affinity group, Spirited Women, which connects women across the globe.

In 2011 Rolls-Royce implemented a 'reverse mentoring' programme, whereby senior executives were mentored by a junior colleague. The aim is to give senior executives a different perspective, sharing diverse experiences and ideas whilst increasing the visibility of diverse talent. Twelve of the 17 reverse mentors are female. Software firm Sage undertook an annual gender diversity review in June 2011; today it proactively encourages coaching and mentoring of female executives to aspire to top leadership roles and insists on a diverse slate of candidates from head hunters for all senior executive appointments.

Many trade and professional associations are also walking the walk. For example, the Institute of Chartered Accountants in England and Wales (ICAEW) has launched Narrowing the Gap, an initiative aimed at retaining women in accountancy, and boasts a 66% female workforce, double that of the industry average.

Role models

A growing number of women, both in senior roles and among the rank and file, are finding their voices and inspiring others to achieve progress, reports McKinsey in 'The Global Gender Agenda'. It is this advice and willingness to share that will make all the difference to a new generation of treasurers.

When asked what advice she would give to other women in treasury, Easton focused on mentoring. "The mentor can be in your industry, within treasury or outside of treasury, a man or woman. Clearly identify what you want to achieve with this relationship, create a profile of the best mentor for you, find the right person, and identify reasonable goals for meetings, including frequency," she says.

Persson believes that effectively managing your manager, promoting your achievements and building a strong network, both within the organisation and externally, are key elements. "Having good relationships with colleagues is essential and helps when one needs help," she says. She adds that although these points are not gender-specific, "my impression is that men are generally better at them, when for me it took time and many mistakes to conclude that".

Berndt also says her advice works just as well for men. "My strongest advice is to trust your intuition, be authentic and true to yourself, and have confidence in your abilities. Quite often we know what needs to be done but we allow ourselves to be talked out of it because it is different to the way things have been done before. Be an advocate for change." ■

This much I know

Sophia Porcelli

Director Treasury, AkzoNobel, Asia Pacific



What is your career defining moment?

There have been several exciting challenges but the most recent was the opportunity to move into treasury without a specialised treasury background. Apart from the valuable chance to learn, it opened a whole new discipline up to me while continuing to engage businesses internally. Plus, now I work with people outside the company and have expanded my external peer network cross industries.

Which women in business most inspire you and why?

Women that contribute beyond their own expert function and are leaders in a wider corporate or community context. These women give more than their technical knowledge and concentrate their passion, energy and drive on helping others.

What is the biggest challenge you are facing just now?

Part of treasury's challenge is to understand the business environment. In AkzoNobel, we like to position ourselves as close partners with the businesses. That creates a window conducive for cross-learning: we can learn more about the businesses and at the same time share our knowledge on treasury products and services. The challenge is to cultivate cross-learning whilst embracing change and delivering sustainable benefits at the same time.

The other challenge is the global economic situation, so treasury needs to be mindful of external risks. We are based in an emerging market with pockets of good news, which we need to capitalise on. Change is constant and that gives us greater opportunity to thrive.

What couldn't you manage without?

The first thing that comes to mind is being part of a supportive and diverse team in the workplace. To work with collaborative colleagues and learn from each other is fantastic.

What advice would you give to other women in treasury?

Be clear about why you are in treasury – that means understanding your own contribution to the discipline, your team and vice versa. It's not always explicit. And you should have one eye out for the next move. Be in control of your career development is my advice.

If there is one thing you could have done differently in your career path so far, what would that be?

I have thought long and hard on this question, but I can't think of anything. If you are asking whether if I had to replay what I did, would I do the same? Yes, I would, absolutely.

“I had the opportunity to visit different parts of the company, talk to all levels of management and see best practices first hand.”



Sophia Porcelli has been involved with the transformation of AkzoNobel's Asian treasury operations as an integral part of the group's mandate. This includes implementing new treasury platforms, setting up a shared service centre starting with payment factory and streamlining the number of banking partners.

"We are on a journey," she says. "We have increasing visibility and control over our treasury processes and liquidity." With the technical design established, treasury is now on-boarding business units in a phased manner in order to operate more centrally using standardised tools and processes and realise cost savings.

The other exciting part of the journey has been building the treasury team. "When I first returned to Singapore in mid-2009, I was the only one here and today we have eight people. In addition, the team in China has grown from two to six," Porcelli explains. "We went through a recruitment drive, partly to staff the new operating model, but also to gain more expertise in the team to serve our growing businesses." She herself chose treasury after an internal audit role because it allows room to grow in terms of knowledge and also greater interaction with business, especially at senior management level, both in and outside the company. She considers this key to being a seasoned finance professional.

Porcelli began her career with a Big Four audit practice in London. After qualifying as a chartered accountant, she was recruited by Courtaulds, a former UK listed manufacturer of coatings and chemicals, now part of AkzoNobel, to work as an internal financial consultant. This meant being a global trotter filling in temporary vacant financial positions in the group and working as an extra pair of hands for specific projects.

"This proved to be an excellent entry point from the Big Four into the corporate world," says Porcelli. "It was fun to travel up to a few months at a time. I gained a lot of exposure and attracted the interest of different people within the organisation."

Courtaulds' development programme involved recruiting people and then placing them into more permanent "proper jobs". At the end of an 18-month stint, Porcelli was offered a regional finance manager position based in Singapore. In that role, she worked on financial consolidation and also led an ERP implementation project. This led to her next position of heading the internal audit team. She cautions, however, that moving around as a female lead spouse has its challenges as well as rewards, and this is something young women looking for international careers need to consider.

At that time AkzoNobel, a Dutch-owned company, acquired Courtaulds. "I was in a great position, leading a growing young talented team. I had the opportunity to visit different parts of the company, engage all levels of management and see best practices first hand. I even visited selective customers. As AkzoNobel has a diverse business portfolio, such cross-business unit exposure is invaluable," says Porcelli. "In 2007 I was offered a job in treasury, based in the Netherlands, and I took it."

Porcelli identifies the move into treasury as a career defining moment. She also values being able to move around in different positions within a multinational company. "I really encourage employees and hiring managers, in whatever function, to maximise that," she says. "Being in different work settings meant the need to adapt, overcome challenges and develop attributes. It is enriching."

Career development is an important focus for Porcelli. She encourages people to find their own mentors, within the company or outside of it. "I think the relationship (internal versus external mentors) could be different and I have been fortunate to have both at different stages of my career," she says. "It is important to have someone you are comfortable with but who challenges your line of thinking. They should be able to give you a different perspective that you are not able to see for yourself." She points out that the strongest mentor-mentee relationship is one of mutual benefit and perspective sharing.

When asked where to find a mentor, she suggests looking for people that you aspire to be, not necessarily from the corporate world, and then be "thick skinned and just ask them". "Compare where you are and where they are – and work out what needs to be done in order to get there," she explains. ■



Sophia Porcelli is the Director Treasury Asia Pacific for AkzoNobel, the world's largest global paints and coatings company, and a leader in specialty chemicals. Sophia was born in Hong Kong and educated in the UK. During her tenure with the company, Sophia has worked in various regional and global financial roles on several international assignments. Taking on diverse posts across both emerging and mature markets has given Sophia variety in her work and makes her a seasoned financial professional. She believes that career progression and success comes from being customer focused, clear about what you want and ensuring there is balance in your life. Sophia shares her passion for cooking and travel with her French-born Italian South African husband.

Selecting a banking partner to operate in Asia

Tapping our collective knowledge to get better information

“ When selecting a banking partner to operate in Asia, what are the most important questions a corporate treasurer should be asking? ”

Damian Glendinning, President, Association of Corporate Treasurers (Singapore) and Treasurer, Lenovo, responded:

Selecting a banking partner is like most other activities: it is best to have clearly defined objectives. The main points to consider are:

- Can the bank provide seamless service across all the countries in Asia? Typically, this means using an international bank. Some Asian banks are building networks across the region, but few have fully functioning structures as of yet.
- Will the bank provide credit support, if needed, in each country? International banks are often reluctant to provide access to their balance sheets. Using Asian banks will usually mean a multi-bank structure. While the situation has improved, some Asian banks are still reluctant to provide MT940 reporting; and, if you have operations in remote locations, not all branches are on SWIFT.
- Is cash pooling and sweeping needed? Many Asian countries still have exchange controls (different in each country, of course), so physical cash sweeps are usually not possible. Some international banks do provide notional pooling arrangements – but it is not necessarily plain sailing to use these.
- Balance sheet strength: many Asian banks now have stronger balance sheets and capital ratios than their Western counterparts.
- Are there services needed which can only be provided by local banks? This means using local banks and therefore will require a series of relationships, with the challenges of visibility and control. A company running a centralised operation using modern cash pooling techniques with daily information on cash balances in the centre will find itself gravitating towards international banks.



Alain Bridoux, Senior Advisor, Transnations, responded (with a focus on China):

The first question I would ask is how reliable is this bank worldwide and in China? Prudence would immediately disqualify any bank for which there is the slightest doubt about creditworthiness. Ratings might have some limitations but there is no reason on earth – including the strong recommendation of a local business unit manager – that should outweigh the credit rating established by reputable agencies.

The second question should verify the experience of the group in dealing with that bank in other countries. It is preferable to have a previously established relationship with that bank in other parts of the world. If no previous experience exists with the potential partner, my advice is to network with other clients using the bank for the same services in the specific province. Do not make your decision based on discussions with the international or global relationship staff of the Chinese bank. Despite being able to identify what you want, they do not have the authority over regional branches to deliver specific solutions. The reason is that all regional banks in China are essentially an extension of the economic policy of the central government.

The logical fall-back position is to select a new banking partner from the pool of banks used by the group or one of their associated banks in China. Chinese banks with some partnership or co-operation agreements with foreign banks are by definition still primarily the extended arms of the economic policy of the central government, as explained above. Therefore their links with a friendly home bank have limited value. A foreign bank established in China that is part of the bank pool in the home country of your group is obviously a safer choice. However, thinking that you will automatically obtain the “Rolls-Royce” treatment that your head office gets is an illusion.

Typically your global relationship manager will pledge that their Chinese subsidiary will mirror exactly what you have in other places, and they will probably do it in good faith. My experience is that they can be overruled by a local branch manager in China. In Hong Kong and Shanghai I received apologies from the global relationship manager when it emerged that the local branch manager had applied conditions based on the credit-worthiness of the local subsidiary of a group, while having told the global relationship manager that conditions applied were the best legally possible in the country.

The most difficult judgment to apply regards the ethics of the local bank manager of a possible new partner. Treasury personnel are often inexperienced in China and remote control from the head office is difficult. It is important that the new banking partner does not suggest products which may offer a small temporary advantage to the local subsidiary but could create a large risk for the group.



Lillian Sim, Head of Regional MNC Sales, Asia Pacific, J.P. Morgan Treasury Services, responded:

How do I improve my visibility?

Today, it's not enough to have fragmented snapshots of cash holdings – a treasurer requires a holistic and consolidated view over all accounts, in all markets and regions, all of the time, in order to make the best decisions around the short-, medium- and long-term use of that cash. Treasurers need to consider whether their potential banking partner has the right infrastructure in place, and ideally ensure that rich information and analytics can be extracted quickly and easily at a number of different levels across a country, the region or even globally.

How can I grow the bottom line?

A significant trend over the past few years has been the focus by corporate treasurers on achieving greater efficiencies around their working capital. Largely driven by ongoing uncertainty globally and compression of margins, extracting the maximum value out of a company's cash holdings is key.

An important consideration here is the extent to which a banking partner is able to offer automated solutions that drive high straight through processing (STP) rates across payables and receivables, both from a transaction and a reconciliation perspective. By eliminating manual processes as much as possible, the combination of faster, more accurate processing and reduced manual intervention results in savings across the board, and a better bottom line.

How do I mobilise my cash?

Once a treasurer has achieved enhanced visibility over their cash, and automated as much as possible its solutions and infrastructure, a final important question revolves around freeing up that cash and moving it across corporate entities, countries and regions. Doing this across multiple subsidiaries, parent companies and geographies – not to mention a wide and varied range of restricted markets – is a complex task, so a corporate treasurer must look at the synergies and strengths delivered by its banking partner. Fragmented banking relationships – or multiple banking partners – may not always be the right approach, as it can add complexity and challenges around harmonising banking platforms.

A treasurer should consider seeking a partner that is able to provide the right tools, technology and infrastructure, as well as the ability to automate the movement of cash, which will help that company achieve better yields, pay down debt and generate greater returns for their excess cash. ■

The next question:

“How can corporate treasurers best tackle the issue of trapped cash, especially in China?”

Please send your comments and responses to qa@treasurytoday.com

Central banks don't 'control' EUR/USD

Asian based corporates exporting to Europe know that the euro is well above purchasing power parity with the US dollar. This can be explained by the fact the Fed is following a more aggressive monetary policy than the ECB, while Europe is in a recession and the US is not. Moreover, fiscal policy is being tightened less in the US than in Europe.

The fact that EUR/USD is, at the time of writing this Market View, still in the 1.30 region is remarkable. After all, purchasing power parity (a yardstick many economists use to determine the equilibrium level for exchange rates) is normally estimated to be in the region of 1.10, so the euro is well above that level. How can that be if there are even doubts as to the survival of the European currency and the European economy is in a recession, while the US economy is growing?

Naturally, the US has a fairly high deficit on the current account, even if it is rather smaller than before. In the past that was often overshadowed by capital influx from abroad, which is something one would expect now, in view of the improved outlook for the US economy. Moreover, the US has the great advantage of:

- A far more flexible labour market and economy, as well as a more favourable business climate.
- The prospect of oil and gas production increasing enormously in the coming years.
- Far less of a rise in unit labour costs over the past decade than in Europe.

The central bank's approach

Taking all this into account, EUR/USD should logically be below, rather than above, 1.10. However, there appears to be one factor that is overshadowing all this: the central bank's approach. When the credit crisis broke out, Ben Bernanke, Chairman of the Federal Reserve, immediately realised that, without large-scale government and central bank intervention, the US economy would fall into a deep depression. The Fed therefore initially lowered short-term interest rates to 0%, but when that failed to help sufficiently, it also actively suppressed long-term interest rates.

The central bank had already lowered interest rates so far, however, that investors could only earn a reasonable return by taking increasing risks. That resulted in narrowing credit spreads and rising stock prices. The Fed is now also attempting to boost the housing market and housing prices by lowering mortgage interest rates as far as possible.

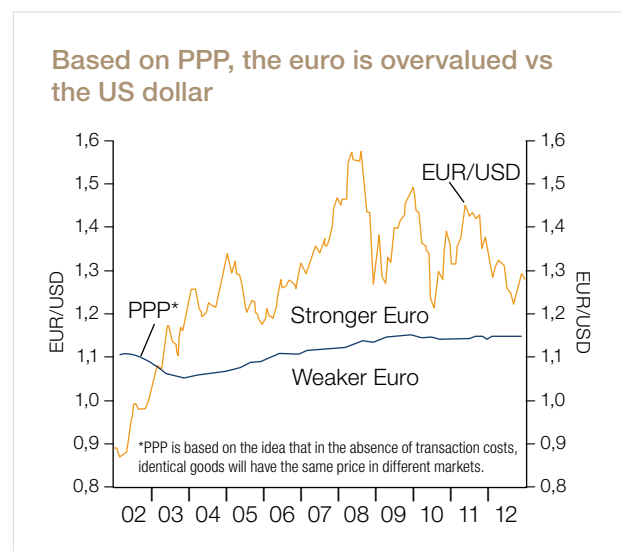
The advantage of all this is that consumer balance sheets improve, so consumers can start borrowing more again.

However, in view of the enormous debt mountain accumulated in the past, this is proving to be a slow process, particularly now that the government has to reduce budget deficits even before debts in the private sector have been reduced to any great degree. (Moreover, much of the reduction that has taken place so far is the result of bankruptcies. Many of those involved will therefore be unable to borrow any more for the time being.)

Inflation threatens

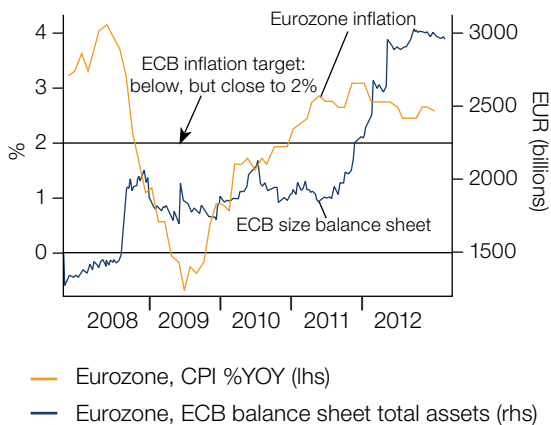
The great risk of this monetary tactic is that the enormous quantity of extra money will cause a high inflation risk as soon as credit activity picks up. That can only be avoided by promptly withdrawing the extra money from the system.

Central banks often have the greatest difficulty in doing this in time, however, but they are also faced with the problem that once they remove money from the system, asset prices start falling. Losses on loans extended in the past then immediately mount, so banks start lending less and growth slows again. In other words: what this tactic amounts to is postponing the problems to the future. There is no point in doing that unless the government uses the time 'bought' to



Source: Thomson Reuters Datastream/ECR

Much looser monetary policy ECB does not match Germany's anti-inflation stance



Source: Thomson Reuters Datastream/ECB

take structural measures for increasing the economy's growth potential. The Fed views this fairly optimistically, though.

Most Fed members feel that if they are too late in withdrawing the money from the system and inflation rises, they are quite capable of fighting inflation. They are far more confident in doing that than in fighting deflation. They are not so concerned about the resulting fall in asset prices.

The European Central Bank (ECB) has other views – particularly when it comes to Germany. The Germans are terrified that once inflation starts rising, it will be almost impossible to stop.

They believe that this will hit asset prices – and therefore the economy – so hard that the central bank will not even begin to fight inflation. This has created the strange situation where, although the US economy is growing more rapidly and is in a better position than the economy in Europe, the Fed is prepared to loosen monetary policy much further than the ECB. The ECB is also far more concerned that if it opens the liquidity taps even further, politicians will only use that as an opportunity to postpone further structural measures that are generally unpopular. The net effect of further monetary loosening then becomes entirely negative. Finally, the fact that governments in Europe are more inclined than the US

government to reduce budget deficits by hiking excise and consumer taxes also plays a role – they (temporarily) increase inflation.

Aggressive Fed policy

A situation has therefore arisen in which the Fed is following a more aggressive monetary policy than the ECB, while Europe is in a recession and the US is not. Moreover, fiscal policy is being tightened less in the US than in Europe.

That is the main reason why EUR/USD is at around 1.30 rather than below 1.10. It looks as if this situation will continue for the time being. There is one snag, though: if the Fed loosens monetary policy further – and therefore creates more money – that does not necessarily mean that the total money supply in the US will grow more rapidly.

After all, the extra money the central bank creates only represents a small percentage of the total money supply. The rest is created through credit activity. If credit activity declines, then the total money supply can still shrink or grow considerably more slowly despite the fact that the central bank is creating a great deal more money.

This is extremely important, as it is the difference between the growth of the total money supply in the US and Europe, in particular, that affects EUR/USD. In other words, if EUR/USD is still far above its purchasing power parity while the situation is worse in Europe, then that is chiefly because the total money supply is growing more rapidly in the US than in Europe. However, this is only possible when the US economy is picking up and borrowing increases.

There remain a number of major obstacles for US credit activity to expand more rapidly. The effects of ageing, uncertainty regarding future fiscal policy, stagnating real incomes and high unemployment will limit consumers' and companies' willingness to borrow more and therefore will remain subdued. If this will be the case and consumers even continue deleveraging, then the central bank can create as much money as it likes, but there will be little or no increase in the total money supply (the central bank cannot continue creating money indefinitely, either, due to the future inflation threat). The economy then remains weak and sentiment is therefore risk off. Stocks and EUR/USD will then fall, something we expect to happen in the course of this year. ■

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Eastern aspirations

The Asian economic landscape has changed significantly over the past decade and is still progressing rapidly. While the evolution is welcome, these developments have contributed to an altered landscape for treasurers working in the region, making efficient cash management more complex. As Asia's importance to the global economy continues to grow, how must the dynamic market prepare?

The past decade has seen Asia become a much more significant economic player. Against a backdrop of low interest rates and sluggish growth in Europe and the US, Western corporates have increasingly been focusing on expanding their businesses in the faster-growing emerging markets. Yet one consequence of these developments is that many multinational corporates (MNCs) have been obliged to bring the management of their Asian subsidiaries' treasuries closer to the region. Conducting operations from a Western headquarters has become impossible for many firms, with the result that an increasing number of regional treasury centres are being established in Asia in order to manage the corporate funds and risk exposures.

At the same time, the structure of domestic corporate treasuries in Asia is also changing: Asian companies are trying to control their global treasury operations centrally. Treasury is becoming a higher priority than before and companies are increasingly building dedicated treasury operations.

The treasurer's rising profile

The past decade has seen the evolution of the role of the treasurer from an almost administrative position towards the more coordinator role that is expected today. "In the past few years, treasurers have played the role of coordinator, particularly with areas like finance, tax and IT. They have been the centre of expertise and they connect back to the lifeblood of the company, which is cash flow and managing liquidity," says Steve Dwyre, Managing Director, Industrials and TMT at Lloyds Banking Group.

Yet now treasurers are making another transition. From this coordinator position, the treasurer is being drawn on to play a much more strategic part in the firm, in the heart of the business so to speak, deferred to by the CFO and participating at Board meetings more than they have ever done before. As the role of the treasurer achieves this higher

profile, the number of talented professionals from a banking background who are choosing corporate treasury as a career choice is also rising, according to Stuart Ridley, Manager – Treasury at Robert Walters Recruitment. “I’ve seen an improvement in the quality of people who are choosing treasury over the normal financial/accounting route. As the treasurer becomes a more respected position, more people are attracted to it,” he says.

Treasurers are being asked to present the Board with innovative solutions for counterparty risk analysis that goes beyond credit default swap (CDS) spreads and public ratings.

As a senior figure, and an expert across many fields, the objectives of the treasurer are therefore shaping many of the trends that we can see developing in 2013. As they juggle their many balls of responsibility, the treasurer must respond to economic developments and regulatory changes, while also grabbing growth opportunities with both hands. The decisions they make are driving the industry forward.

Global priorities

Risk management is one area where the treasurer has recently proved to be a strong coordinator. Often sitting on the risk committee, the treasurer may assist the banking partners with stress scenarios and management planning, taking the treasury function to the next strategic level. In this new, more involved approach, treasurers are being asked to present the Board with innovative solutions for counterparty risk analysis that goes beyond credit default swap (CDS) spreads and public ratings.

As they’re the ones liaising with the banks, the treasurers understand the ratings and counterparty analysis processes, affirms Rajesh Mehta, EMEA Head of Treasury and Trade Solutions, Citi Transaction Services. “They are increasingly being seen as ‘the risk manager’ which in many corporate organisations is not a designated function per se. Whether it is with bank counterparty risk, credit ratings or potential sovereign default, treasurers get involved in all key stages of the risk management process. And the investment committees are looking to treasurers to satisfy the threshold of risk management.”

From a risk perspective, the way the treasury operates and how it is managed will only continue to rise in importance. This is currently reflected in the upgrade of the risk management capabilities of treasury departments – in both financial institutions and larger corporates, according to Rohan Douglas, CEO at Quantifi. “Given the turmoil in the financial marketplace, institutions are subject to a lot more volatility, which is driving an increased focus on more accurate valuations and more comprehensive risk management.”

In these uncertain times, corporates can face difficulties with regard to credit lines and liquidity that they rely upon for business operations. Treasurers, therefore, are aware of the

importance of working capital and maximising the internal working capital resources. They are also looking to improve working capital through improved credit risk analysis and collections automation strategies, resulting in reduced borrowing margins. Treasurers are now much more the arbiters of working capital across the firm, says Mehta. “Most treasurers tend to act as the bank relationship arm of finance within the firm and are now preaching the value and importance of working capital and optimising internal capital.”

As for where the specific impact of working capital can be seen, the corporate treasurer is getting involved with their supply chain on a much more strategic level. “Treasurers know that the companies, especially those who are focusing on emerging markets growth, have to optimise their supply chain in order to successfully grow otherwise any weak link or potential disruption could become a constraining factor,” he says.

Furthermore, intraday liquidity will continue to be high on the agenda next year, according to Ruth Wandhöfer, Head of Regulatory and Market Strategy at Citi Transaction Services. “Solutions to improve the corporates’ use of liquidity will help in this respect but banks themselves will need to find ways to better monitor and allocate liquidity usage. Pricing of intraday liquidity will become a more prominent area of discussion given the fact that liquidity constitutes an increasing cost to banks. This is further accentuated by the fact that Basel aims to discourage access to intraday wholesale liquidity and instead more liquidity is expected to be held by banks at all times.”

Tech trends

Treasurers’ objectives – efficient working capital and risk management – are also driving the technology agenda. The challenge for banks in the current environment therefore, according to Citi’s Mehta, is satisfying this demand for innovation while also adhering to the mandatory regulatory demands.

Mobile is one area that seems to be going from strength to strength in the corporate arena. Since Citi launched CitiDirect® BE mobile, the mobile extension of its electronic banking system, last year, it has implemented the solution in 87 countries and accumulatively completed \$10 billion in transaction value through mobile. The advantage of mobile as an efficiency enabler for treasurers frequently needing to conduct business while on the road is also widely known, but there is now a more basic demographic trend that the banks must cater for. Says Mehta: “We are seeing a convergence between the personal technology that is used by the average consumer and the expectation that corporate interaction shouldn’t be any less convenient. Treasurers are expecting the same digital interface in their working environment.”

Corporates are looking for more flexible software that provides high performance and the development of technologies, including multicore architectures, are helping provide this. According to Douglas, leveraging Intel’s multicores CPUs allows software to run much faster on what is now industry standard hardware. “To further simplify their IT infrastructure, more companies are also looking to introduce a hosting model and cloud computing. The ability to leverage computational power on demand and rent hardware on an as-needed basis, in addition to run calculations out on a cloud, has a lot of interesting

applications in the financial arena where often computational requirements peak at certain times in the day.”

But the world of technology is ever changing. According to Dwyre, we have moved on from simply having a web and a cloud and have now entered a new world of ‘sensors’, which are becoming smaller and more ubiquitous in everyday life. “Linked to the cloud, sensory data that exists in the real world suddenly becomes available to the consumer and the business world. How sensors react to all the data that is being collected and how that data is used is the important part.”

A concrete example of this is Lloyds Bank’s creation of the Arena platform, from which a treasurer can see every balance in every bank account and can even transact in foreign exchange (FX) across this one system that connects it all – no longer do they need to rely on a system that only a bank can access.

Many companies have spent vast quantities of money putting in place a treasury management system (TMS) or an enterprise resource planning system (ERP). But this buoyant market naturally tailed off when budgets were cut; although the corporate might need a TMS or ERP, they had to hold out on its implementation until they could spare the funds. But new providers are coming to the market that can actually offer the required system on a bit-by-bit basis, according to Ridley. “Two or three segments from the entire system might be absolutely essential to you and you can pick and choose these to your specification. This is much more attractive to cash-strapped corporates than paying for an all singing, all dancing system that you are only using a fraction of.”

“The fragmentation in the FX space that has been apparent in Europe for some time is now increasingly becoming an issue in Asia.”

Tanuja Randery, CEO at MarketPrizm

Outsourcing trade

While trade with the rest of the world has continued to show impressive growth, intra-Asian trade has also developed in its importance to the region, affording it a greater level of protection against economic shocks originating in the EU and the US. Indeed, the move away from the bulk of trade being conducted on a US dollar basis has demanded that treasurers expand their risk management arrangements to take account of this changing landscape.

“The fragmentation in the FX space that has been apparent in Europe for some time is now increasingly becoming an issue in Asia,” says Tanuja Randery, CEO at MarketPrizm. This can make trading quite costly and complex in terms of trying to gain access to the multiple markets. “Access is a big word for a lot of things: in order to trade, clients need to be immersed in the market or they may just want to receive data from and send their orders back to the market. This involves the maintenance of development and network staff.

“But we are seeing increasing demand for these services in Australia and also continuing demand in Tokyo. Other emerging countries are also becoming more attractive such

as Taiwan and Indonesia. In addition, China looks very interesting but it is early days yet.”

An integrated offer from a provider that actually has its own network, data and software is therefore becoming an attractive option – a trend growing more in Asia because the penetration in the region in terms of electronic and algorithmic trading is much lower than its Western counterparts, according to Randery. And Asia is expensive for low latency networks and collocation. While FX electronic trading has existed for quite a few years, the growth of high frequency trading (HFT) and algorithmic trading is emerging as a relatively recent trend, she says. “The reason this has happened is because clients are no longer able to make money in the placid markets, such as equities, so they have entered the FX space as a means of diversifying asset classes. This trade landscape is also becoming more global in nature and as a result we have seen the number of interested buy side and HFT players increasing significantly.”

Although the data volumes are much fewer in the FX arena than those seen in equities (most of the work happening with five or six currency pairs), in terms of fragmentation and the complexity deriving from that, in addition to the customisation required for the FX venue itself, trade is almost more complicated as a result. Says Randery: “You may not need as much bandwidth from a network perspective to reach the venue and trade but you do need it for many functions, particularly when it comes to managing each of the FX venues in an extremely bespoke manner for provisioning/onboarding set-up.”

In turn, these enormous complexities encourage traders to look towards a managed services model; they are looking for players to simplify and extract the infrastructure for them, and provide the infrastructure and data as a service model. The region is therefore seeing a shift towards the high speed, low latency service – a trend that looks set to continue. “A lot of our clients are saying that they want to avoid the spaghetti mess of multiple pipes, vendors, cross-connects, etc, which is time-consuming and costly. They are looking for very simplified infrastructure – and we act like the master switch that the clients plug into. We feed the venue, becoming a flow aggregator distributing each of those clients to where they need to go through the pricing engines. We manage the process so that it almost looks like the one stream – leveraging our infrastructure to mutualise cost and channel customers.”

Onwards and upwards

As the Asian landscape is composed of many diverse markets at different stages of development, companies operating in Asia – both MNCs and domestic – must be prepared to combat a number of different challenges. When it comes to the management of treasury, a one-size-fits-all strategy is therefore unlikely to be appropriate, so corporates should be equipped to deal with the policies and procedures that are bespoke to the region.

A key challenge for regulators across the Asian landscape in the coming years will be ensuring that monetary policies continue to favour sustained growth. Given that many of the economies are still in nascent stages, maintaining a favourable regulatory environment is crucial. Nonetheless, Asia – with its economic titans such as China and India – remains set to be one of the key drivers of global growth in the coming year. ■



“We are proud to support the 2013 Treasury Today Adam Smith Awards as they share our ambition to recognise outstanding performance across the treasury industry. Over the past five years, these Awards have grown to become a globally-recognised standard for excellence and we are delighted to be working with the Treasury Today team.”

Carole Berndt, Head of Global Transaction Services for Europe, the Middle East and Africa at Bank of America Merrill Lynch.

Getting ready for the Adam Smith Awards 2013

Treasury Today is delighted to announce that Bank of America Merrill Lynch is sponsor of the 2013 Adam Smith Awards. Now entering their sixth year, the Adam Smith Awards have gained recognition globally as the ultimate industry benchmark, bringing much deserved accolades to corporates demonstrating best practice and innovation, regardless of company size, geographical location and industry sector.

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The Adam Smith Awards are open to all corporates. Competition for these coveted Awards increases every year and 2013 promises to be the most exciting yet. As well as being presented with a stunning crystal Award at a prestigious Awards Lunch in London, this is your opportunity to significantly raise the profile of you and your team, portray how you have demonstrated thought leadership and innovation and showcase your achievements to Treasury Today's global audience as well as to your colleagues, clients, investors and peers.

Nominations open on 31st January and will close on 30th April 2013. Full details can be found on treasurytoday.com/adamsmith. The short nomination form should take no more than 15 minutes of your time to complete. There is no limit to the number of solutions that can be entered and a single project can be entered under more than one category. A full list of Award categories appears below.

Nominations can be made by any corporate. Banks and service providers can assist their clients in completing the nomination form. Banks and service providers are also allowed to submit nominations on behalf of their corporate clients (with their approval).

Award categories

- Treasury Today's Top Treasury Team 2013
- 'First Class' Bank Relationship Management
- Best Cash/Liquidity Management Solution
- Best Short-Term Investment Strategy
- Best Working Capital Management/Financial Supply Chain/AP/AR Solution
- Best Card Solution
- Best Financing Solution
- Best Risk Management Solution
- Best Process Re-engineering Solution
- Best MME/SME Treasury Solution
- One to Watch
- Best in Class Benchmarking

As well as our established Award categories, we have added three new categories for 2013:

- Best Foreign Exchange Solution
- Asia Pacific Regional Award for Best Practice
- Treasury Today Woman of the Year

Japan

We start our series of Asian country profiles by looking at Japan, host to both the September IMF meeting and SWIFT's SIBOS conference in 2012.

Once the dream economy of the East and heralded in the 1970s and 1980s much as China is now, Japan remains the world's third largest economy. It has a nominal GDP of \$5.87 trillion, despite having one of the biggest national debts in the world and enduring the Lost Decade of the 1990s.

Japan has suffered from falling prices for two decades and this autumn experienced its fourth recession since 2000. Yet this protracted deep deflation in Japan paradoxically provided a model for the rest of the world. When the financial crisis hit, the G7 nations quickly implemented a near-zero interest rate policy, effectively imitating Japan's policy.

However, there is a real danger inherent in this policy. Analysts are now warning of the 'Japanification' of the world economy – ie the threat of an extended period of stagnation or negative GDP growth.

The flagging Japanese economy proved to be the deciding factor in the recent elections on 16th December 2012. After a three-year absence, the Liberal Democratic Party of Japan (LDP) was re-elected based on a pledge to revive the Japanese economy. Almost immediately afterwards, the central bank – Bank of Japan (BOJ) – extended its asset purchase programme, aimed at keeping borrowing costs down, by Japanese yen (JPY) ¥10 trillion (\$119 billion).

The Japanese government is expected to raise its economic growth forecast for the next fiscal year to above 2% on hopes that its planned fiscal stimulus package will boost growth. It is also keeping up pressure on the BOJ to step up its monetary stimulus, even after it loosened policy in December for the third time in four months.

Prime Minister Shinzo Abe said he would consider changing the law governing the central bank unless it boosts its inflation target. The BOJ has already signalled it may set a higher target at its 21st-22nd January meeting, despite market participants expressing disbelief that it has the means to achieve it.

Rebooting the economy

According to International Monetary Fund (IMF) data, net government debt is estimated to be 135% of GDP in 2012 and on current projections government debt will reach 164% of GDP in 2016. The overwhelming majority (95%) of the debt on issue is held domestically.

Many market analysts have predicted the imminent demise of Japanese economic power, fuelled by its unorthodox government bond scheme. In a recent paper, UCSD Professor Takeo Hoshi and University of Tokyo Professor Takatoshi Ito ask an interesting question: how long can Japanese bond prices defy gravity? They argue that the key feature that has kept this process going has been that 95% of the Japanese government debt is domestically owned. "Japanese residents

put their savings into banks and insurance companies, who along with pension funds lend to the government at very low rates. But as more Japanese retire from the workforce, that is likely to change dramatically," according to Hoshi and Ito.

As the number of people investing from within the country grows smaller, domestic banks are called upon to subsidise the deficit. Hoshi and Ito report that Japanese banks collectively hold about ¥142 trillion of central and local government bonds as of the end of March 2010. This is about 32% of total bank loans.

While the top banks are losing their places at the top of the global rankings to their Chinese rivals, overall, Japan's banks are holding their own, according to The Banker's 2012 survey of global banks.

Top four Japanese banks

1. Mitsubishi UFJ Financial Group.
2. Mizuho Financial Group.
3. Sumitomo Mitsui Financial Group.
4. Norinchukin Bank.

Source: thebankerdatabase.com

According to Asian Development Bank's (ADB) ASEAN+3 Bond Market Guide, Japan offers a wide range of financial tools to meet a range of issuer and investor requirements. Aside from traditional instruments such as loans, corporate bonds, and commercial papers, securitised products are also available in Japan's credit market. The Financial Services Agency (FSA) supervises the capital market of Japan.

After the global financial crisis in 2008, despite showing downward trend in the second half of 2008, the corporate bond market has shown relatively steady recovery towards 2009 and 2010. The 11th March 2011 earthquake and tsunami hit the market, and the performance of the first half of 2011 showed a slowdown.

The country's stagnant economic growth is characterised by a lack of natural resources, an export market that remains well below its import market and, at times, a tempestuous trade relationship with other Asian countries. Over the past 20 months, the economy has maintained a stable footing,

allowing economists to turn to the more long-term worries for Japan's continuing success.

With interest on government debt rising and exports to Europe and China down, the latter dramatically due to the disputed Senkaku/Diaoyu Islands, questions for future prosperity will revolve around the newly-elected government's ability to increase foreign confidence in Japan and to begin to devise solutions for the ongoing debt situation.

Trade

Japan is a member of the Asia Pacific Economic Co-operation (APEC), the World Trade Organisation (WTO) and an ASEAN partner. The country has free trade agreements (FTAs) in operation with:

- Mexico.
- Singapore.
- Malaysia.
- The Philippines.
- Indonesia.
- Thailand.
- Brunei.
- Chile.
- Switzerland.
- Vietnam.

FTAs with India and Australia, which are under discussion, would further strengthen the country's trade capabilities.

The diplomatic ruptures with China have dealt a blow for those who wish to see Japan's trading potential strengthened. Total exports fell 6.5% in October from a year earlier, sharper than a 4.9% fall forecasted by economists, leading to a fourth straight monthly trade deficit.

In addition, the Ministry of Economy Trade and Industry reported that industrial production fell 1.7% in November 2012 from the previous month. Compared with the same month a year earlier, it was down 5.8%.

Following on from the natural disaster of 2011 there were hopes in Japan that focus might shift positively to more inspired ways of preserving the country's future prosperity and endurance. One such way that potential benefits to a change in outlook are being observed is in the approach to energy. Nuclear power accounted for almost one-third of Japan's energy supply before the reactors were shut. The radiation worries and resulting backlash against nuclear energy has meant that Japanese companies are hungrily buying from Malaysia, Australia, and the US, as well as across Africa. Japan is already the world's largest importer of natural gas.

The large changes to global trade following from 2008's crisis have by no means stabilised. As the Eurozone crisis continues, the region's banks, under rising political pressure to shore up capital at home in markets that are barely growing, are cutting lending to emerging markets.

Many French banks, including BNP Paribas, Société Générale (SocGen) and Crédit Agricole, have retrenched due to a lack of US dollar reserves, which is the currency for the majority of global trade financing. They are choosing not to play in a region now dominated by US banks, such as J.P. Morgan, Citi and Bank of America Merrill Lynch, large international banks

including Standard Chartered and HSBC, and domestic Japanese banks. The latter are being bolstered by domestic corporates expanding into other areas of Asia, eager to gain traction in the quick-evolving and growing economies of previously minor Asian economic powers.

Although initially a shift of the locality of those financing trade may have provoked fears that there would be a reduced pool for Asian companies to borrow from when exporting, it seems it is a straightforward locality change in where the money is coming from. In this shift it has thus far been the Japanese banks that appear, up to now, to be coming up on top. Mitsubishi UFJ Financial Group and Sumitomo Mitsui Financial Group have a 16.6% and 9.6% market share respectively, massive increases on their representations in 2011 additionally meaning that Mitsubishi UFJ is now the top market shareholder.

As intraregional trade flow increases and Japanese companies expand their reach into new markets, complex structured hybrid trade finance models are becoming increasingly important.

Payments

Domestic retail banking operates in a country in which the majority of payments are still made in cash. Although viewed by much of the world as a technological superpower, the reality is that in terms of day-to-day functionality plastic cards, although gaining in popularity, are still not used at the same level as other developed countries. Large retail companies, therefore, will be balancing books that are dominated by cash payments.

Direct debit is the most common payment method for all regular consumer to business payments, ie utility and rental payments, etc. Cheques, on the other hand, are uncommon and mostly used by corporates. Companies pay employees mainly through direct credit into their bank accounts. Electronic payments (e-payments), made real-time via Zengin System, are steadily gaining in popularity due to the widespread use of electronic devices and smart phones.

As intraregional trade flow increases and Japanese companies expand their reach into new markets, complex structured hybrid trade finance models are becoming increasingly important.

Systems managing inter-bank payments in Japan are divided into private sector clearing networks, domestic funds transfer system and the foreign exchange (FX) JPY clearing system. Alongside these run ATMs, which have a high importance as e-payment mechanisms in Japan, according to the Japanese Bankers Association.

There are four major payment systems for clearing and settling inter-bank payments in Japan – three clearing systems in the private sector and a funds transfer system operated by the central bank. In 2009, the securities settlement systems were reformed and wide-ranging progress has been made.

Postal accounts and postal giro services, provided by the government-run Post Office, are also popular. Similar to the

Foreign exchange controls

Foreign Exchange and Foreign Trade Law (April 1998) gave companies in Japan greater flexibility in managing foreign currency, trade settlement, and subsidiary funding. There are five key law revisions:

1. Cross-border capital flow liberalisation.
2. Free market for foreign currency exchange.
3. Overseas accounts.
4. Multi-lateral netting.
5. Allow domestic trade in foreign currency.

Japan resident entities are responsible for all regulatory reporting.

Export and import controls are imposed following the UN sanction.

Export and Import of certain products are prohibited or require specific licences.

Source: NCL Report

rest of Asia, the pick up of electronic transfer systems has been widespread in the Japanese banking system.

Cash management

Companies operating in Japan have the choice of a variety of short-term funding alternatives, with a range of short-term investment instruments. Most Japanese companies tend to rely on cash concentration as a means of managing individual company and group liquidity.

Zero balancing is the most widely used liquidity management technique. Notional pooling, which is available in Japan, is infrequently used by companies because the tax implications surrounding the technique in Japan are unclear and can make the whole process overly complicated.

Discussion of FX in any part of Asia is dominated by talk of the rise of the renminbi (RMB) as an international currency. Japan is no different, and exposure to the RMB and developments around its use as a trade currency will only grow increasingly pertinent.

As SunGard highlights in a November 2012 survey report, FX risk exposure, credit and interest rate risk remain top priorities for Japanese corporates. 'As a company's global exposure increases, FX volatility can have a greater impact on profits, product pricing, and performance,' according to the SunGard report.

Attracting top talent

Japan has attracted a number of international companies over the decades; it is a wealthy country with a strong and loyal consumer population.

It is often said, however, that it is one of the hardest of the developed countries for global brands to break into and to do so requires a deep commitment to the Japanese operations. Multinationals are confronted by challenges including opaque regulation, comprehension challenges and market

impenetrability. This is not a country that companies can do a 'smash and grab raid', but requires a long-term approach which, when done correctly, can reap vast rewards.

One problem that multinationals must solve is how to attract, retain and get the most out of the local labour pool. The successful integration of domestic management into international teams adds layers of complexity. As Japanese companies looking abroad for growth must learn to rely further on in-country management, so must multinational companies do so in Japan.

An Economist Intelligence Unit (EIU) survey from November 2011 polled the opinions of multinationals operating in Japan and the problems that they face. Just over half (54%) of the non-Japanese corporate respondents were satisfied with recent hires in specialised and managerial positions in Japan, while 20% reported being unsatisfied or highly unsatisfied with their recent intake in Japan. This reflects the complexity of recruiting local talent in a country where the established Japanese company will have greater authority in securing talent.

Most elite Japanese graduates will be drawn to the big Japanese names, with joining a foreign company still being thought of as a risk. Just as Japanese consumers are wary of foreign brands which appear and disappear within a short timeframe, so too are their workers when looking for a job. Aside from this prudence on the part of Japanese talent, Japanese workers are also concerned about the day-to-day practicalities involved with working for a foreign company.

The shrinking working age population is also an issue to bear in mind – Japan's elderly population, aged 65 or older, is forecast to increase to 38% of the population by 2055.

Japan has attracted a number of international companies over the decades; it is a wealthy country with a strong and loyal consumer population.

The simplest, yet most persistent problem for multinationals operating in Japan remains that of language skills and capabilities. The majority of the Japanese workforce have a low level of English capabilities and are not aggressive in honing and quickly acquiring these skills.

Other persistent problems with Japanese employees are symptomatic of the cultural differences – there is not much encouragement in Japan for individuality either in general society, at school or work. Loyalty and a communality of approach are stressed as positive attributes, but also could have the effect of inhibiting creativity and leadership in business.

Alongside this cultural clash, however, runs the excellence in technical skills, attention to detail – and loyalty. If foreign multinationals can employ creative leaders to work alongside the Japanese workforce and encourage a change in approach that is aligned with the company's global aims, as well as support foreign language education, then they will reap the rewards. Japan is a country rich in potential and possibilities for multinationals that can tailor their approach for a unique, yet richly rewarding, opportunity. ■

John Locke

Few individuals in history have had an influence on economics comparable to that of the English empiricist John Locke. However, the contributions that Locke made to economics were primarily of a philosophical nature. He was a firm advocate of what he called 'natural rights'. His contention that all individuals have a right to liberty, labour, and property helped to provide the philosophical foundation upon which capitalism developed in 17th Century England – ideas which would also prove influential in the drafting of the US Constitution nearly a century later. Locke also made several important contributions to the development of the theory of money and interest rates.

The tumultuous age in which John Locke grew up would profoundly shape his thinking on philosophical and, by extension, economic matters. Locke was born in Somerset, England in 1632, the eldest child of a puritan country lawyer who had once served as a cavalry commander on the side of republican forces during the English Civil War. After having attended Westminster School, at that time one of England's most distinguished public schools, in 1652 Locke earned a scholarship to Christ Church College Oxford, where he gained first a Bachelor's followed by a Master's degree in 1659.

Locke then began to develop an interest in medicine which he would study during his spare time. His interest in medical matters led to his appointment as personal physician to Lord Ashley, Chancellor of the Exchequer, a role which would soon develop into that of personal assistant. As Lord Ashley's assistant, Locke was given insight into the prominent financial issues of the day, including issues relating to trade with the British colonies and interest rates. The expertise he gained from this association would eventually be put into practice when he was awarded the post of Secretary to the Council for Trade and Plantations in 1673.

After a two-year spell, Locke retired from government office to focus his time on another passion: his philosophical writings. In the subsequent years Locke worked on two manuscripts which would eventually establish his reputation as a great philosopher – *An Essay Concerning Human Understanding* and *Two Treatises of Government*.

But despite his retirement from government office, Locke retained a keen interest in the important economic issues facing the country in the late 17th Century, continuing to involve himself in debates concerning issues of financial policy until his death in 1704.

Locke is recognised as having made four important contributions to the development of economics as a science – two of which are philosophical in nature and two others specific to our understanding of currencies and interest rates.

The right to liberty, labour and property

The principle for which Locke has become known was his assertion, now a central tenet of modern libertarian thought, that "government has no other end but the preservation of private property". Although much less contentious today, Locke's justification of private property was exceptionally

radical for the age. In 17th Century England much of Europe remained under the rule of theocratic monarchs, in which the divine right of kings as rulers and owners of all property was the prevailing philosophy, conditions which made it very difficult to justify private ownership.

This feudal social structure was, however, beginning to be supplanted by a new economic system. The capitalist economy, as Locke was writing, was expanding at a rapid pace; an advance which was bringing it into conflict with the traditional feudal economy and the religious institutions upon which feudalism was based.

"Whenever the legislators endeavour to take away and destroy the property of the people, or reduce them to slavery under arbitrary, they put themselves in a state of war with the people who are thereupon absolved from any further obedience."

In order to make the case for private ownership of property, Locke began by promoting his belief that all men had a right to the fruits of their own labour. Individuals, he argued, were able to obtain land through their own labour, and therefore had an entitlement to ownership of the land. This premise, it is important to note, was on the provision that one man's appropriation of land is not of "any prejudice to any other man" – meaning that there remained enough land for others – and that there was no possibility that the land would 'spoil' before it could be consumed.

Developing this premise into a more comprehensive defence of property rights, Locke argued that money or capital, when looked at in basic terms, could be viewed simply as the product of past labour. Accumulating money could, therefore, be morally justified on the grounds that the principle way of accumulating wealth was through one's own toil. Since money by its very nature cannot spoil before it is consumed, the only limitation that Locke envisaged on the accumulation of capital was that the practise should not infringe on the right of the poorest to income at times when a scarcity of land or jobs produces severe economic hardship.

In his work the Two Treatises of Government, Locke turned his pen to defining a moral argument for the involvement of the state, albeit limited in scope, in the emerging capitalist economy. “Whenever the legislators endeavour to take away and destroy the property of the people, or reduce them to slavery under arbitrary law,” he argued, “they put themselves in a state of war with the people who are thereupon absolved from any further obedience.” In this statement, echoes of which would be heard in the American Declaration of Independence, Locke is arguing that the ultimate source of political authority in any given society, according to their conception of natural law, is the individual. Government exists in society, Locke believed, purely by the consent of the governed. All citizens in a capitalist society have a common interest in giving their consent to the rule of government – protection of life, liberty and property – and are hence entitled to reject any state which fails to protect – or indeed deliberately contravenes – this fundamental right.

Locke’s second philosophical contribution would help to establish economics as a reputable science. At the time in England, the prevailing religious view was of individuals as altruistic souls who acted on either what they saw as the common good or by exclusively following the teachings of the church. Locke came to quite a different conclusion in his writings. Individuals, he argued, were rarely, if ever, motivated by altruism. On the contrary, it was self-interest that counted more when explaining why individuals behaved in certain ways. From this premise – that individuals act on the basis of what they believe to be in their own interests – Locke realised that certain economic laws could be developed. For instance, Locke was the first to observe that as the price of a certain commodity increased consumers would typically respond by purchasing cheaper alternatives. In a similar vein, merchants would, he noted, react to greater scope for profit by increasing production and endeavouring to sell more goods.

Money and interest rates

Much of Locke’s best-known economic writings were drafted in response to great political questions of the era. In the late 1660s, Locke came into a conflict of opinion with a group of mercantilists, led by Josiah Child, who introduced a bill to Parliament proposing that the state should limit interest rates to 4%. Their argument, which Locke refuted, was that lower interest rates would be beneficial for all merchants who required credit to put to productive purposes and, by extension, be good for the country as a whole.

In a pamphlet entitled *Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money*, Locke set out his reasoning for why this strategy would be ineffective, working not for the greater good of the nation and society, since where the borrower gains, the lender loses out. Not only was this redistributive effect contrary to Locke’s limited conception of the state’s remit, the measure could, he argued, potentially restrict the flow of credit if some people were unwilling to lend money at the lower rate. It would be much preferable, Locke argued, to continue to allow interest rates to be determined by laws of nature, rather than arbitrary dictates from government. Although there is no way of knowing just how decisive Locke’s contribution to the parliamentary debates concerning interest rates was, the bill was eventually thrown out by the House of Lords in 1669.

Locke also assumed an important role in the debates concerning the Great Recoinage which were taking place in England as the

17th Century was drawing to a close. His response is credited as being one of the first coherent explanations setting out the relationship between the quantity of money and the price level. In the 1690s, England faced a predicament concerning the value of its currency. Merchants had been deceptively clipping the sterling crowns that were in circulation in order to siphon off the metal to make silver bullion. The diminishing metal content of England’s silver currency became a subject of intense anxiety and disagreement in Parliament. One solution put forward at the time was to reduce the weight of silver in all coins – a currency devaluation, in essence.

Locke strongly opposed this solution, instead arguing in favour of recoinage of the currency to its original metal content. There was little point, Locke argued, in reducing the silver in England’s sterling crowns because their value was determined not by government legislation, but by the quantity of precious metal they contained. Debasement of the currency, therefore, would only work to push up prices; merchants would inevitably demand increasingly more coins for the same quantity of goods in order to compensate for reduced silver content.

As with the debate concerning whether to lower the rate of interest, Locke’s arguments would ultimately prevail and the government took what was a controversial decision: not to devalue and to recoin the currency to the accustomed level of silver.

Conclusion

There is little doubt regarding the profound influence John Locke had as a philosopher. With his philosophical writings Locke laid out the fundamental arguments for the liberal capitalist state. Individuals, he believed, have natural rights that exist prior to the formation of government. The purpose of government is to protect those rights, and should be dissolved if it happens to violate them – an argument that, 300 years on, remains part of libertarian political discourse today.

Locke’s reasoning on economic matters can also be said to have stood the test of time. Today we often hear the same objections from economists regarding the control of interest rates as set out in Locke’s pamphlet.

Furthermore, the argument he made during the Great Recoinage debates, specifically that reducing the silver content of each coin and producing more coins would lead to price inflation, provided the theoretical groundwork for the quantity theory of money and, later on, the work of the influential 20th Century economist Milton Friedman. ■

Further reading:

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South-South trade: opportunity shifts east

Strong growth and rapid urbanisation rates in developing regions are sparking a revolution in trade patterns. Business opportunities are shifting towards the east, in turn having a formative impact on treasury best practice in FX risk management and supply chain strategy.

Trade flows lie at the heart of the global economic system. Cross-border transactions underpin the prosperity of nations, influencing anything from the current account to inflation rates. For much of the past three centuries, Europe and North America have dominated the patterns of international commerce.

But how long will this last? A surge in inter-regional trade between Asia, the Middle East, Africa and Latin America means that this supremacy may well decline in the long term. These 'South-South' trade flows are directed toward fast-growing emerging markets, side-stepping sluggish economies in the developed world. Moreover, they are already having formative impact on core treasury areas, such as foreign exchange (FX) management and supply chain strategies.

Emerging market exports have rebounded faster than world exports following the global financial crisis, according to a United Nations Conference on Trade and Development (UNCTAD) report in June. South-South exports increased by 30% between 2009 and 2010 alone, compared to 22% for the latter. Economic troubles in the West have spurred developing nations to realign their economic interests towards flourishing regions.

In 2010, for instance, China signed \$16 billion worth of trade deals with India during a visit by the Chinese premier, compared to just \$10 billion with the US when President Obama arrived in town. Brazil, Myanmar, Iran and Afghanistan all count China as their largest foreign investor,

with much-needed funding ploughed into infrastructural projects that facilitate business and trade.

“The global financial crisis was a watershed moment from the perspective of increased focus and attention to South-South trade flows,” says Kah Chye Tan, Global Head of Trade and Working Capital at Barclays. “In many ways, it has been happening for quite some time. We are seeing less trade intermediation traditionally played by the European countries.”

Western governments and consumers, for their part, are busy deleveraging. As a result, aggregate demand remains weak and provides little incentive for emerging economies, such as China and Brazil, to devote substantial resources towards building trade relations down the line. Developing countries are understandably looking elsewhere for business opportunities.

“Global economic troubles have yet to subside, and that is evidenced by the challenges in Europe,” says Simon Constantinides, HSBC’s Regional Head of Global Trade and Receivables Finance, Asia Pacific. “We have started to see a knock on effect on China because of the continued slowdown on the European continent where China has large business interests. However, if you look at Asia you will find that the area is reliant on regional trade as well. Over 50% of China’s trade is with other Asian countries, for example.”

Asia blooms

In a sense, South-South trade is very much trade with, and within, Asia. UNCTAD figures suggest that Asia accounts for over 80% of all South-South exports; and that nearly three-quarters of this figure can be attributed to Asian countries trading with each other. China acts as the centre of gravity for a new pattern of commerce stimulated by rapid urbanisation rates and infrastructural developments.

Latin America and Africa, on the whole, are marginal actors – though nevertheless important ones. These regions account for 10% and 6% of South-South exports, respectively. An Ernst & Young corporate survey in 2011 pointed out that a significant portion of this inter-regional trade represents flows of goods between and within companies – such as rubber, plastics and metal products – as opposed to finished products for consumers.

“China is operating a two-way trade market with Latin America,” observes Constantinides at HSBC. “It is importing iron ore, soy and other commodities and at the same time offering a significant quantity of finished products that aims to satisfy the large consumer base in Latin America. And while there is growing potential for trade between those two regions, we also know that China and Africa have very active trade models, developing and competing with India.”

But India is no paper tiger either, argues Barclay’s Tan. “As a market, it has transformed quite nicely in the past five to ten years,” he notes. “India used to be an exceedingly closed market. There was always a lot of trade, but it was intra-India, things are changing rapidly. Indian trade flow with China has ballooned, and trade with Africa has increased too. The country has a strong competitive edge in manufactured goods and pharmaceutical products.”

Indeed, UNCTAD figures put manufactures at 60% of South-South exports. HSBC research in mid-2011 predicted that South-South trade and capital flows will jump by a factor of ten in the next 40 years. And the exact composition of that

trade will likely change over time. As demand in developing regions increases, local preferences will figure in on a wider scale. The car industry is a good example. European manufacturers specialise in high-end, bulky automobiles, such as a Mercedes or BMW, that signify status as much as convenience. But Asian producers, such as the Indian firm Tata, have created a niche for themselves by manufacturing cheaper, lighter and durable cars that cater towards the needs of lower middle-class families that prize expediency over style.

With economic barriers still relatively high compared to trade policies in North America and Europe, the room for further improvements in scale and interdependency is huge. Trade is likely to flourish as obstacles to commerce become gradually dismantled.

FX risk goes red

All this is well and good. But what do these developments mean for the corporate treasurer? The revolution in trade is manifesting itself in two core spheres of treasury practice: FX risk management and supply chain management. Taken together, these two trends are influencing key aspects of the international treasury landscape.

Where there are trade flows, there are capital requirements. With the US dollar beset by a troubled North American economy, the surge in South-South trade will be a powerful factor in the continued liberalisation of the Chinese redbank. Corporates have become long accustomed to trading with an FX ‘triumvirate’ of the US dollar, euro and yen. But in the medium to long term, the renminbi (RMB) may well add a new dimension to this framework, particularly given that China will play a central role in future economic growth.

Since the late 1970s, China has become the workshop of the world, producing anything from simple toys to iPods. But underneath its economy lies a paradox. To date, despite the economic and military prowess of the Asian Tiger, its currency has played a minimal role in international financial affairs. A SWIFT paper in mid-2011 highlighted the fact that the yuan made up for just 0.9% of FX trades. This figure pales in comparison to the US dollar’s 45.9% and the 16.9% of the euro.

This situation is likely to change. China acts as a magnet that attracts the resources and goods of surrounding regions, a position that affords the country a tremendous bargaining power. It is an influence that feeds into cross-border transactions, too: the RMB is already gaining ground as the currency of choice used to execute trades.

“We know that 10% of China’s trade is settled in RMB,” says Constantinides. “This illustrates that companies are now becoming more astute, focused and interested in what trading RMB can do on a competitive basis. First, they get pricing visibility, because now they can get a two-way quote in either euro or US dollar (in terms of the RMB). Second, if China’s imports are going to grow significantly, Chinese buyers are going to want to use their currency. They don’t want to go into the market as much to buy dollars when they are going to get paid in RMB; so they would rather become more comfortable in eliminating the FX risk. We believe that the redbank will become more and more significant as a major trade currency.”

An HSBC survey last October, for instance, suggested that 71% of Chinese corporates expect one-third of all Chinese trade to be executed in RMB. Moreover, four out of every ten

Chinese businesses were willing to offer discounts of up to 3% on trades in RMB. Treasurers need to get used to the idea that FX risk management will take on an increasingly red hue. Best treasury practice is now likely to be in tune with the latest developments of onshore and offshore RMB markets. More corporates will be using RMB to manage their FX risks, in turn bringing operational and accounting advantages while based in the region. Indeed, key management meetings are now often held in Asia as a signal of the region's importance to some international corporates.

So far, Chinese authorities have been reluctant to ease capital controls by too much. Policymakers in Beijing are all too aware of the example set by the Asian financial crisis in the late 1990s, when neighbouring economies in south-east Asia succumbed to sudden outflows of capital and fell into economic ruin. Countries such as Thailand had liberal capital regimes that allowed investors to exit by the click of a mouse button. The Asian Tiger largely escaped the chaos given its tightly controlled redback. And as a result, Chinese authorities are still cautious about dismantling capital barriers in one fell swoop. A gradual approach to liberalisation is preferred.

Nevertheless, the redback is a currency with a bedrock of confidence. As long as there are business opportunities to be won, international companies will be willing to execute trades in yuan.

But a changed FX risk management arena is not the only symptom of South-South trade flows. Given that the RMB remains a tightly controlled currency, this will have implications for trade finance practice in developing economies. This restriction will inevitably feed into, and limit, the level of trade finance services offered by banks operating in Asia. On the one hand, corporates are lured into the region by strong demand. On the other, however, they face potential bottlenecks when it comes to executing RMB trades via trade finance instruments.

Supply goes South-South

The dynamics of supply chain management are also at the forefront of change. Emerging market prosperity has been coupled with (relatively) low wage growth, affording international corporates more attractive locations to set up shop. The appeal stems from greater political stability and hard-nosed business logic; and is strengthened by rock-bottom transport and transaction costs via air, sea and the electronic ether.

With business opportunities shifting eastward, there is an increasing incentive to shift supply chain towards the regions that matter: Asia and Latin America. This is all the more important for corporates that wish to tap into local demand in these areas. A regional supply chain allows the company to adapt quickly to shifts in the regional economy, or even changes in consumer preferences. And it can deliver large cost savings given the shorter delivery times involved.

Ernst & Young's 2011 corporate survey contended, "the fact that rapid-growth markets, and China in particular, will represent the fastest growing source of final demand over the coming decade, will provide additional impetus for firms to locate production in the destination region to serve emerging markets more responsively." More than two-thirds of the companies surveyed, the report went on to remark, noted that their supply chain is increasingly

being developed to service their company's growth in emerging markets.

Strong relationships and trust were found to be the key factors influencing corporate strategies. Increasingly, international corporates are becoming more comfortable with suppliers based in multiple regions as opposed to concentrating all their eggs in one basket.

But this shift, while useful, is certainly not flawless. First, delegating the supply chain to regional actors entails a loss of centralisation and direct control over suppliers and production. And second, the corporate's reputation is at risk in case of local failures to adhere to product quality and labour standards.

On top of these two issues comes the difficulty of establishing a proper foothold into the regions. Entry to South-South trade markets can be an arduous, time-costly process – although one that is alleviated by the fact that the shift in trade patterns is likely to continue into the long run. It is a matter for corporate treasurers to weigh short-term costs against the long-term benefits, a difficult task in the current harsh business environment.

Catching up

"Trade flows are really changing," says Tan at Barclays. "If you go back three or four decades, one leg of the transaction would have always ended up in the Organisation for Economic Co-operation and Development (OECD) market. Today you now find that one leg of the transaction will end up in the Asian market. It is very hard today to find a trade flow where one leg is not in Asia." Many corporates would agree with Tan. Business opportunities are flowing eastwards along with trade. The only question is when corporates decide to tap into these currents.

The world economy is not a zero-sum game; the rise of the East does not necessarily come at the expense of the West. Indeed, the continued development of South-South trade can be beneficial for all parties, argues Tan. With China shifting to a consumer economy from an export-led one, international business can tap into the Asian giant's rising tide of consumer wealth.

Emerging nations, for their part, benefit from a greater degree of economic independence. "Being able to loosen policy at a time of global economic and financial stress is a relatively new phenomenon for emerging market policy makers and it reflects improved external balance sheets, lower inflation and more flexible exchange rate regimes compared to earlier decades," says Brian Coulton, Emerging Market Strategist at Legal and General Investment Management (LGIM).

And there is plenty of room for development. Per capita incomes, a proxy for assessing standards of living, remain rather low in China, Brazil, India and other developing economies. As trade flows persist, they will surely rise towards Western levels.

When viewed historically, South-South trade flows are just another example of an 'economic catch-up' at work. A millennium ago, Asia and Africa dominated the routes of world trade – at a point in time when Europe was still an undeveloped backwater. The US was a small economy in the mid-19th Century, but then went on to assume global leadership within 100 years. For now, it seems, economic affluence is swinging back to the East and it is likely to stay there for some time. Corporates should grab a hold while they can. ■



Tongue-tied: overcoming the language barrier

Global technology and connectivity advancements have made the planet a much smaller place – yet, in many respects, regions remain worlds apart. As global power shifts eastward and M&A opportunities increase, employers need staff with cross-cultural competency to ensure future business growth.

Against a backdrop of low interest rates and stagnant economic growth, multinational corporations (MNCs) in Europe and the US have increasingly looked to expand their businesses in the more active emerging markets. Offering attractive growth opportunities, Asia remains a target for many companies, yet expansion prospects are not limited to companies in the West – Asian companies are also ambitious when it comes to expanding within the region.

The 2012 Fortune Global 500 list included 68 companies from Japan, 61 from China (up from 16 in 2005), 14 from South Korea, eight each from India and Taiwan, two from Singapore and one respectively from Malaysia and Thailand. Furthermore, research published by FTI

Consulting in January 2012 indicated that 45% of companies in Asia were planning strategic acquisitions in Europe in the coming year.

While expansion both into and across the region appears attractive, companies operating in Asia must contend with a number of different challenges, not least that of language. According to 2012 research by the Economist Intelligence Unit, almost 50% of executives at MNCs report that language difficulties have dissolved cross-border business deals and caused significant financial losses for their respective companies. Chinese companies were affected even more so, with 61% respectively reporting financial losses as a result of failed cross-border transactions.

According to Anna Shevchenko, Managing Director at 3CN, language is the most dynamic reflection of culture. “But breaking down language barriers brings with it certain cognitive risks, as it does not always mean breaking down the barriers of perception.”

What’s in a word?

The spoken language also comprises a whole range of cultural and sociological symbols, argues Alain Bridoux, Consultant at Transnations, a cross-cultural consultancy, and formerly CFO of a Sandvik China joint venture. “Language barriers do not only include the understanding of words, but more generally the meaning of words and their true intentions as expressed by the person or organisation. This is important when it comes to indirect cultures where people do not easily express how they feel.”

This lack of forwardness can be illustrated by the strong sense of ‘saving face’ in Asian cultures, according to Bridoux. The Chinese word for face is *mianzi* and losing *mianzi* can be disastrous. Most companies conducting business in the region take care to avoid such a scenario, but it is quite possible to do something unintentional that causes offence: a Westerner, for example, is likely to ask someone for help or further explanation; this, however, would be viewed as a significant gaffe in China and could actually cause a breakdown in working relations.

Mingmei Chang, Vice President of Corporate Liquidity in China at SunGard, who is based in Shanghai, reports that many Chinese MNCs that SunGard work with, such as global giant Huawei, often outsource linguistic and cultural communication issues to independent consulting groups. Other companies are hiring interpreters to bridge the gap, despite the expense involved and the fact that they may not be entirely familiar with the complex subject matter.

Having someone with minimal experience as regards the material and discussions at high level meetings they are expected to decode may be a large risk for a corporate executive to take, but Bridoux was more than satisfied with the translator he worked with for nine months in his previous role at Sandvik.

“In many cases, she knew not just what words to use but how to talk to people in the best manner possible. I gave her some assignments to convey a certain message, speaking to her in a Western manner, which she was then able to pass on in a more subtle Chinese way,” he explains. Naturally, the amount of trust involved in this kind of relationship is enormous and something that not every manager would be comfortable with.

According to Sanmit Ahuja, CEO at ETI Dynamics, it is important to understand how sociological and economic factors play a significant role in this ‘disconnect’. “Up until the turn of the last century, North America and Europe were the two central pillars of the world and that domination is now being challenged by new rising giants. In corporate environments, many Western managers still have a ‘know it all’ attitude to whatever goes on in Asia or Africa and that does not go down very well in these regions,” he says.

Cross-border deals and mergers that have failed to be realised through misunderstandings and cultural slights – perhaps assisted by this historical arrogance – are playing havoc with the bottom line. Even if successful, differences post-merger can also hinder effective communication in various ways,

whether at an executive level or for the average employee. For example, workers who are not fluent in the primary language used in the workplace may have difficulty expressing their needs or responding to requests from colleagues.

Despite the need for a deeper understanding of cultural and linguistic differences, many companies have been slow to come up with an appropriate solution. Some Asian corporates do not wish to acknowledge an issue at all and prohibit any sort of linguistic education for fear their staff will become “disobedient”, says Bridoux. “The success rate from all acquisitions in Asia is approximately 20% or lower. Language and cultural barriers have a large part to play in this breakdown, as it is uncommon in state-owned companies that employees would be allowed to learn English.”

A strong local workforce in Asia that could work closely with Western colleagues to execute corporate strategy is key to success.

Furthermore, the cost of failing to address this issue has not been adequately studied. So when a serious blunder is made, it’s treated as one-off human error rather than systemic, according to Dr. Kevin Lin, Managing Director, KL Communications. Yet, taking a small selection of recent cultural blunders, it is plain to see that the problem is much more widespread. Says Lin: “In 2005, Nike lost tens of millions when its advert containing cultural gaffes was banned in China. Google paid a reportedly seven-figure sum to buy its Chinese domain name. And Pfizer is selling Viagra in China under a far less eye-catching name than the one it was initially known for after failing to understand the difference between Viagra in English and what it might be in Chinese.”

It is clear that most corporates are actively looking for solutions for this communication divide because it can be a significant source of inefficiency between colleagues from different cultures failing to understand or misunderstanding each other’s intentions or views expressed either verbally or via email. However, there is much more to do, according to Lin. “The language and culture topic is rather like keeping fit. Everyone agrees it’s very important. However, far less would actually join a gym and even fewer regularly get on the treadmill,” he says.

Corporate culture

Janet Ming, Head of China Desk EMEA at RBS, has been working in London for the past year running RBS’ China desk. Using both Mandarin and English in daily working life, liaising between Chinese companies moving West and Western companies expanding into China, she has a unique view of the situation. She sees a principal difference in corporate culture between Asian companies, which are more relationship driven, and Western companies, which are more business driven. “In the West, there is more of a work/life separation, meaning executives don’t necessarily need to entertain clients in order to do business with them. Asian business, however, relies much more on personal time to build up relationships with clients.”

Ahuja agrees with Ming’s assessment. “For example, in India, it’s not unusual to celebrate a festival within the office or to

invite the whole office to a family wedding party,” he says. “Moreover, in many parts of Asia, transactions and deals are done on a handshake, based on the trust between business associates, not the endless documents and bureaucratic process that Westerners prefer.”

Ming also says that Western companies are used to a free market environment and a clearly defined regulatory framework, so they find it difficult to understand when their Chinese colleagues or employees explain that certain things can't be done or can't be done consistently in all the locations they operate. On the other hand, Asian companies don't fully comprehend the possibilities open to them.

An additional cultural challenge is the fact that in much of Asia – and particularly China, in Chang's case – it can take years to develop business relationships. “In one case we spent five years building up a relationship with an energy company before any deal was signed,” she says. This is an aspect of operating in Asia which many Western companies often overlook and set their expectations on a more rapid return on their expansion projects than regional business codes can allow for.

Chang believes, however, that attitudes are changing as both sides become more adept at working together. Chinese companies are becoming more open and Western companies are adapting their expectations to the business culture. In a situation that requires both sides to make efforts, “you have to dance together,” she says.

Deep-rooted and pervasive cultural and socio-economic issues can also account for differences in management styles. In his book *Outliers: The Story of Success*, Malcolm Gladwell wrote: “Cultural legacies are powerful forces. They have deep roots and long lives. They persist, generation after generation, virtually intact, even as the economic and social and demographic conditions that spawned them have vanished.”

For example, the motto of the joint venture where Bridoux worked (in which the Chinese partner was an old state-owned company) meant that if you take enough little hands you can grind any complex problem. Explains Bridoux: “When the managers of the joint venture came across a complicated issue, their solution was to bring another ten or 20 people on board. This may be effective in simple construction work/situations but not at all feasible for complex industrial work. The difference in management style between ‘lean management’ and this type of bulk labour cannot be reconciled.”

Old habits die hard, especially when managers feel that their authority is in question. For example, according to a study carried out by the University of Melbourne in 2009, the introduction of English as a corporate language in a German MNC resulted in conflict between Japanese managers within the firm, as junior executives invariably had better English language skills than their seniors. Termed ‘power authority distortion’, the junior managers had better access to decision-making and more power than their bosses. Naturally this explains the reticence of management in some industries in adopting a uniform foreign corporate language.

No small task

Undeniably, a multicultural workforce can offer benefits such as a broader range of perspectives and a greater ability to compete in the global marketplace. But introducing new languages and cultures into a work environment can also create barriers that must be overcome. Settling on a common

corporate language can help but, as mentioned above, some may resist this – if not openly, then ‘under the radar’ – and may even encourage subordinates and colleagues to do the same. This can then translate to discrepancies between company policy and employee practices.

Ming believes that the situation is improving. “The Chinese government has been proactively pushing English education, for example, but there are also young people in the West learning Mandarin and some of them even speak local dialects.” As language capabilities open up, so will a more tolerant approach to the varying cultural practices.

To move things further, much more is still needed. Western companies experiencing success in the more cosmopolitan and westernised eastern side of China, particularly in Beijing and Shanghai, will face far greater challenges as they seek to move into China's interior provinces.

In order to successfully navigate Asia Pacific, Ming believes that a strong local workforce in Asia that could work closely with Western colleagues to execute corporate strategy set by the HQ in a more localised approach is key to success. Western companies need to begin to delegate to their local management and trust them to execute plans from top management. This shift is already noticeable as regional treasury centres are increasingly established in Hong Kong, Shanghai and Singapore to ensure decision making concerning the region is more effective.

Expansion plans

For any corporate expanding its operations globally, management needs to assess and acknowledge the scale of the task in hand. Says Ahuja: “How are you going to do business there? Are you still going to fly in for the relevant meetings? Or are you going to set up your own presence and employ trusted people that have been established there for a long period of time – those who understand the culture and have their own local connections, as opposed to depending on a third party or joint venture partner?”

The extent of the communication barrier to overcome will, at least in part, be related to the role of the employee within the company. Engineers will have numbers, graphs and common standards as communication aids, whereas managers in business and strategy meetings with people of multiple cultures and languages will be at more of a loss.

Developments in multimedia technologies can also assist. As technologies for video, digital animation and media editing become ever more sophisticated and widespread, the world is developing a new vernacular for communication. Skype, for example, helps when it comes to barriers of language, says Shevchenko. “We oversaw a consultancy project for one MNC where we asked the managers to use video cameras for their morning communication sessions – so they could see the facial expressions and identify if the message was understood. This dramatically improved the communication between offices.”

Elsewhere, the landscape is changing. According to Microsoft's central market organisation lead for Asia Pacific, Frederique Covington Corbett, the industry has to start treating cultural knowledge as a professional competency, with the software company considering it a key proficiency skill for its staff. Large companies are now beginning to realise that they cannot make any real progress without taking linguistic and cultural barriers into account – and addressing them head on. ■



THE CORPORATE VIEW

Chaoqun Gao
Treasury Manager China

Heraeus

Chaoqun Gao began her treasury career at Redcats S.A. in Paris, France in 2006. Two years later, she moved back to her native city, Shanghai, to take up the reins of Finance Supervisor at Wilson Engineering Ltd. Then in 2011, Gao became Treasury Manager at Heraeus Shanghai Management Consulting Co. Ltd (Shanghai). Since this interview was conducted, Gao has been appointed Senior Financing and Treasury Advisory Manager for Heraeus Holding GmbH (Hanau, Germany).

Heraeus is a German-based, family owned company and has been so for over 160 years. With more than 13,300 employees across over 130 subsidiaries, the global firm's business groups cover precious metals, materials and technologies, sensors, biomaterials, medical, dental, and pharmaceutical products, quartz glass and speciality light sources. In 2011, Heraeus recorded their most successful year in the company's history with product revenues of €4.8 billion and precious metals trading revenue of €21.3 billion.

Although not necessarily a household name, as it is largely involved in the B2B business and doesn't actually target the end users, Heraeus has an excellent reputation in the precious metals and technology industry among its peers, suppliers and customers worldwide. Business operations are largely focused in three regions: Germany, where the

headquarters sit, and the US and China, where two separate regional hubs have been established.

During 2011, Heraeus divided its former precious metals business group into two business groups: precious metals and materials and technologies. Following the completion of

this project, the precious metals group continued to thrive from the sustained positive market development for products for the photovoltaic industry. The strong demand for products for the automotive industry and the healthy economic situation in Asia allowed the materials and technologies business group to achieve similar positive returns.

To maintain this profitable and sustained growth in years to come, Heraeus commenced a series of initiatives and projects during 2011 aimed at modernising and harmonising its structures and processes across the entire group structure. Its 'Magellan Programme', for example, was launched at the end of 2011 to address the comprehensive standardisation of the company's global business processes on the basis of a uniform IT platform.

“At the time, we wanted to see if we could include a local bank into this core concept too but we had three main criteria that we had to adhere to in the selection of our core banks that none of the local banks lived up to.”

Although Heraeus expects overall economic development to be stagnant or at least slightly lower for the year 2012, the company plans to further develop the business in the automotive electronics, telecommunications, medicine, steel, semiconductor and environmental technology industries. In addition, the company is forecasting the expansion of its activities in China, where the company has more than 15 legal entities and its relatively new regional centre covers six of the company's seven business segments (medical is not yet covered by the Chinese hub).

Founded on 17th August 2009, the Chinese regional centre and its corresponding treasury function have had the opportunity to build up its processes from an entirely clean slate. Chaoqun Gao joined the Group on 1st January 2011 as the inaugural Treasury Manager for the China hub. Everything is on track, according to Gao. Let's take a closer look.

Building the treasury from scratch

Simultaneous to the opening of the new regional centre in China, Heraeus also took on a new Group Treasurer (André Christl) who has been extremely determined in re-organising the entire global treasury structure of the company over the last three years. As part of this revamp, he introduced a new concept concerning treasury financial management and the selection of a small number of core banks.

Previously, the headquarters in Germany had relationships with an array of global banks but the group had come to realise that this banking approach was not very efficient for the business. An overwhelming number of banking partners meant that the firm was decentralised to each bank, according to Gao, and so this core bank concept was a welcome resolution. “According to certain agreed criteria, we have now chosen our core banks that we intend to develop a wider relationship with on a global basis. With these core banks, we are able to centralise all of our dealings and achieve very favourable terms as regards financing (as we get very good price quotations).”

As a global company, Heraeus rolled out this core bank concept first in Germany, then in the US and lastly in China. For the Chinese implementation, (which began in H2 2010 and was completed by H1 2011), the main issue was deciding which bank or banks to choose. Heraeus had already established a global relationship with the shortlisted pool of 13 – mostly international – banks, some of which already had financial partnerships with operational and regional hubs in Europe or the US.

Although this project was run by HQ Treasury, the regional centre in China assisted by contacting banks for RFPs, which contained proposals of cash management services from the banks and their pricing quotations. According to Gao, the China hub wanted to invite some local domestic banks to contribute to the catwalk competition. “At the time, we wanted to see if we could include a local bank into this core concept too but we had three main criteria that we had to adhere to in the selection of our core banks that none of the local banks lived up to.” The criteria were:

- Participation in the syndicated loan granted to Heraeus Holding (as an entry ticket).
- Rating of at least AA-.
- Pricing. By inviting the banks to outline their proposals as to how they planned to facilitate Heraeus China's cash management needs, what they could offer as regards preferential financing solutions etc, comparisons were then made with pricing, processes, and concepts, allowing the best decision to be made.

Changing structures

This concept of a core bank framework has been part of a larger overhaul of the structure and relationship of the company worldwide, says Gao, with headquarters taking a far more centralised approach. “Before, the treasury function was always very much focused on the German business – they didn't think of global treasury management. But they have now changed this mindset and they are contacting the global subsidiaries to understand what they are doing and what their needs are. They have also become very involved in the re-centralisation of the hedging business and all the financial negotiation arrangements.”

Another major change has been the drive to optimise all of the daily treasury operations. The latest reorganisation ensures that Heraeus treasury centres always have a front office that will get into contact with its regional legal entities for the day-to-day activities, take care of rolling out group projects and carrying out different transactions, such as daily financing/investment execution according to cash disposition, hedging deals, etc.

There is also a middle office that takes care of the risk control and reporting issues and then a back office which is essentially a centralised payments factory. Working for the regional centre in China, Gao's responsibilities keep her mainly in the front office, implementing group standardisation regarding treasury management. She is also tasked with making sure the Chinese entities use the regional centre and “ensuring that the subsidiaries are familiar with the advice, services and assistance that are available to them”.

Within this regional hub itself, the various departments work together very closely to achieve process optimisation. This is particularly true of the legal and tax departments as any corporate doing business in China faces many complicated regulatory and tax issues. Says Gao: “For example, the

treasury and legal functions work very closely whenever a credit facility is involved. We discuss internally to agree on appropriate terms and clauses, and realise the negotiations together with the banks.”

Heraeus is currently involved in a large project that aims to standardise the IT systems of all regional centres and subsidiaries globally, meaning that SAP will be rolled out in five years as a standard system.

“For tax issues, it is also important to have developed a good cross-functional bond, as there are situations which involve dealing with inter-company financing positions. We need to gather the relevant data from treasury and discern the credit positions of all subsidiaries. In some cases, we might even try to make some short-term investments. Either way, these various credit scenarios bring with them their own tax implications where we need expert advice and support,” she says.

Playing their part in the company’s new centralised approach, Heraeus China has also been focused on building region-wide RMB cash pools to have access to and allow the optimisation of cash positions across its subsidiaries in China. Before the treasury function was developed here, every entity was only looking at their own cash situation, according to Gao.

There was no general overview for the cash situation in China. “Even when our cash pool was built up four or five years ago and there were a limited number of participants, so cash efficiency was not really improving. Everyone needs to participate in order to make it effective. As a group therefore, we have pushed all of our subsidiaries to join a cash pool and we have encouraged them to use it for their main bank account for payment and cash receipts.”

Currently, the region’s financial position is quite a healthy one: the balance of an amalgamation of cash surplus and cash shortage between the different legal entities. Based on this centralisation of cash positions and the receipt of cash forecasts from the legal entities in the region, the centre is then able to better prepare a sufficient financing arrangement for financing requirements across the region where necessary.

Regional developments and challenges

From a group perspective and as outlined earlier, Heraeus is currently involved in a large project that aims to standardise the IT systems of all regional centres and subsidiaries globally, meaning that SAP will be rolled out in five years as a standard system. Finding a common system that would work for all stakeholders was no mean feat, but the benefits it will bring are significant.

Technology and processes aside, Gao feels progress is being made in the regulatory space too. The financial market in China is already opening up and it is making a big difference to the business environment. During the last two years, for example, China’s State Administration of Foreign Exchange (SAFE) has released several regulations and circulars (such as the opening up of cross-border RMB transactions) rendering the financial environment of China more and more international and flexible.

While no one can assess exactly at what speed, the deregulation of the Chinese market is something that many corporates in the region are quite optimistic about. Furthermore, despite the fact that treasury is really a relatively new function in China – in comparison to areas such as accounting or controlling – Gao remains quite positive for the talent pool available to the company as their treasury matures.

“According to recent market information, there are some really good candidates with experience in treasury in our region. We would prefer to recruit from the local market as the treasury position in China is much more complicated than the US or Europe. For example, with our complex regulations, if we recruit a Chinese treasurer, they are more capable of doing the appropriate research, allowing them to be up-to-date with the relevant regulations instantly and so on.”

One reason for the seemingly positive market for treasury talent is the fact that the Asian hub is situated in Shanghai – which is fast becoming a hotspot for the ambitious financial elite. Recently released as part of the national strategy, the Chinese government has announced its intention to mould Shanghai into an international financial centre by 2020. This will create a resource pool that will be crucial for Heraeus going forward as the treasury department is the most important aspect of the company to be developed in the region, according to Gao.

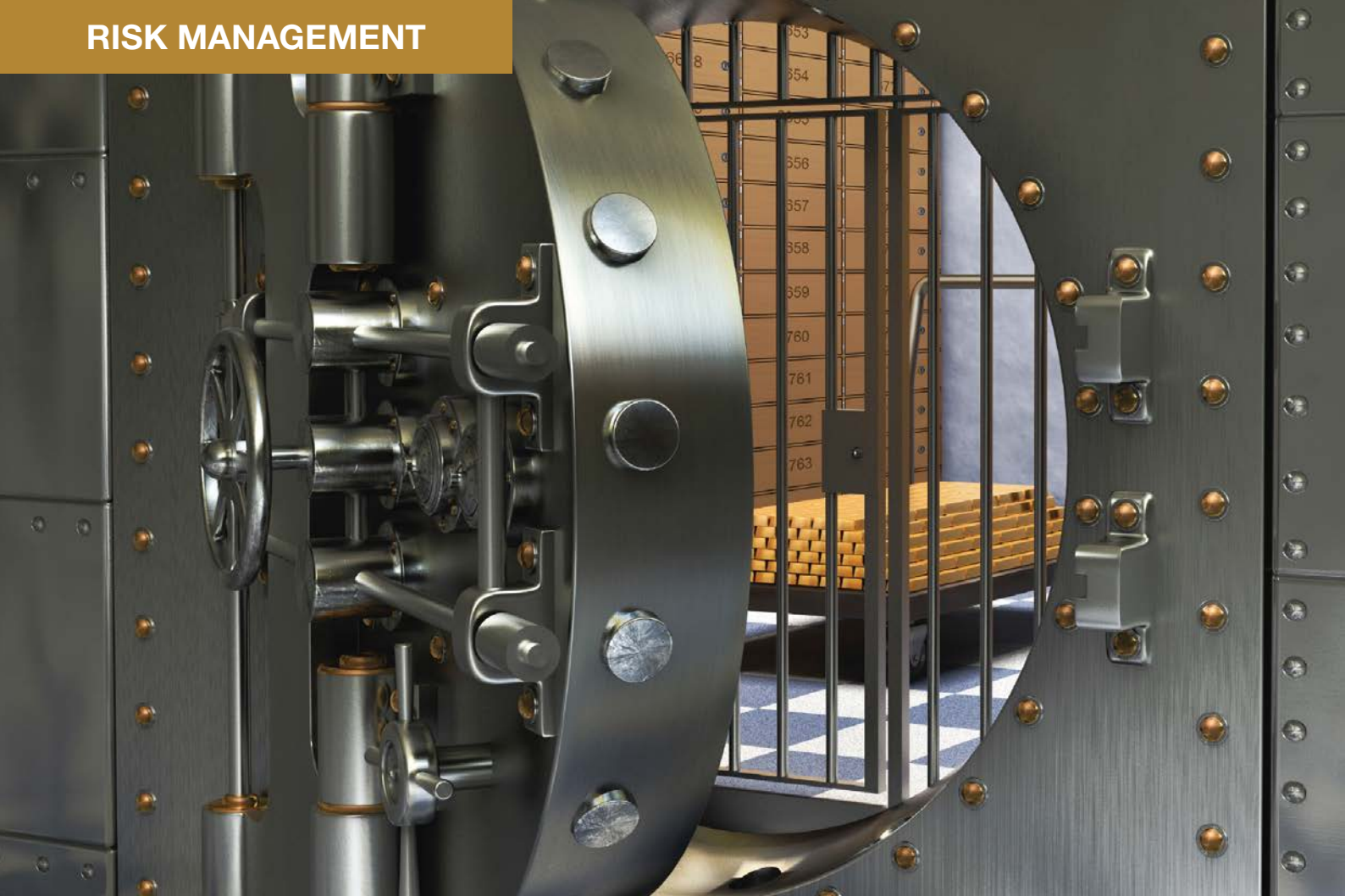
Top of the agenda

Moreover, the Asian region continues to be key for the company – and that trend only looks set to continue. After all, amid the ongoing sovereign debt crisis, the European economy is in danger of lapsing into another recession. And potentially reduced growth rates in newly industrialised countries, renewed tensions in the financial markets, and price increases for important raw materials could negatively affect revenue in some markets. With its headquarters based in Europe, Heraeus is therefore aware that the growth rates for sales and earnings may not continue as they have done in previous years.

Heraeus China has also been focused on building region-wide RMB cash pools to have access to and allow the optimisation of cash positions across its subsidiaries in China.

This is where the growth potential of Asia comes in. Gao tells us what projects the China regional centre has planned for the coming months and years: “We intend to build a payment factory in China, or rather a shared service centre (SSC) for finance. Bearing in mind that this regional centre will eventually be aligned with the German headquarters, we have a focus on centralising our accounting services and streamlining payments. We also want to set up RMB inter-company transactions, including RMB loans. In addition, if the restrictions loosen up enough, we would like to establish a foreign currency cash pool.”

These developments may not appear terribly dramatic from a global treasury perspective but as Gao says, “It may not seem remarkable to our Western colleagues but these changes are new for us. We look forward to the exciting period ahead.” ■



Safeguarding your reputation

Reputation is a highly valuable – and vulnerable – corporate asset. Building up a global name can take years and even decades, but it is surprising how little time it takes to dismantle a high-profile brand.

Seeing your company's name splashed across the front pages is enough to give any employee that terrible sinking feeling. This is even truer for corporate treasurers as their job is not only about cash management and working capital, but also about integrity and personal character.

In this regard, contrary to popular belief, not all publicity is good publicity. Negative exposure can have a ruinous effect on a company's market standing, credit ratings, bank relationships and investor relations, as well as the ability to attract and retain talent. "Ultimately, diminished reputational value, or 'soft' capital, could impact a company's long-term competitive advantage," says Rey Sermonia, who previously held the Treasurer position at Qatargas.

Reputation is an important consideration for many directors. Two-thirds (66%) of directors on the Boards of more than 190 public and privately held companies surveyed by the accounting firm EisnerAmper say reputational risk remains their biggest non-financial concern.

However, protecting your company's brand can seem a bit like fighting fires on all sides. All other risks contribute to a corporate's reputation, including market risk, liquidity risk, credit risk, foreign exchange (FX) risk, financial crime and compliance, and operational risk. For example, BP's operational blunder, which caused the Deepwater Horizon oil spill, resulted in the biggest criminal fine in US history as part of a \$4.5 billion settlement. The financial cost is compounded by reputational harm associated with criminal charges and an environmental catastrophe, something which will be remembered for generations.

Paul Stheeman, ex-Director of International Treasury at Petro-Canada turned Treasury Consultant, says: "The reputational damage was huge, partly because the disaster hit BP alone and none of its peers. Shareholders are now more demanding as to what can and should be managed by a corporate."

"Today there are many ongoing enquiries and high-profile investigations into wrong-doings," adds Gary Williams, General

Manager Treasury, Mitsubishi Corporation International (Europe). “The affected parties are more likely to seek settlement through the legal system and these cases are well publicised.”

Although the most significant contributing factors may differ depending on industry, reputation risk is common across all sectors. Stheeman comes to the crux of the matter when he says the biggest risks facing a corporate's reputation today are those which reflect a lack of internal controls.

Fraud and financial crime: a question of integrity

Eddie McLaughlin, a Managing Director at Marsh Risk Consulting, believes that key reputation exposures facing corporates are around the fidelity of staff and social and ethical responsibility. This is certainly true for the financial services (FS) industry, which has come under severe scrutiny post-financial crisis, resulting in public trust in the banking industry reaching an all-time low.

The banking industry's standing has been further impaired by a number of high-profile insider trading and fraud cases, such as the UBS rogue trader Kweku Adoboli, who was jailed in November for racking up losses of over £1.5 billion during three years of secretive, off-the-books trades. Billed as the 'UK's biggest fraud', Adoboli was allowed to move from a back office role to the exchange traded futures desk, a move normally seen as a breach of best practice. His public prosecution exposed UBS' internal compliance lapses for all to see and may lead to more regulation for the industry as a whole.

While banks have dominated headlines in recent months, well-known corporate brands have also taken reputational hits due to fraud and criminal misconduct. Recently, Hewlett-Packard (HP) revealed it had to write-down \$8.8 billion after “serious accounting improprieties” were discovered at Autonomy, the British tech firm it acquired in 2011 for more than \$10 billion. HP reported a net loss of \$6.9 billion, effectively wiping out its profits for the last quarter. Despite assuring the public that it would attempt to recoup shareholder money through the civil courts, the damage was done and HP shares plunged 13% by mid-morning after the announcement. This example shows how quickly a blow to reputation can affect a corporate's standing in the market and its bottom line.

Today corporates have to stay abreast of a slew of new domestic and international regulations. The world has come a long way since Sarbanes-Oxley (SOX) in 2002, which was a response to the accounting scandals involving Enron, Peregrine Systems and Worldcom, among others.

Notably, more companies are adopting risk mitigation and compliance measures when it comes to the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act, according to a recent survey by Kroll Advisory Solutions. In 2011 only 26% of survey respondents said they had put bribery risk monitoring and reporting systems in place. This year, that figure increased to 52% of respondents. Likewise, where 29% of companies said they trained employees and vendors on anti-bribery compliance in 2011, 55% said they had done so in 2012.

However, more than one in five of survey respondents said that “although they are subject to the UK Bribery Act or US FCPA, they have not made a thorough risk assessment, trained the right people, or amended their due diligence process.” This is a worrying lack of oversight and may lead to hefty fines, as well as headline news.

Fraud and financial crime are clearly areas under the treasurer's remit. To help mitigate these risks, Mitsubishi's Williams advises treasury to:

- Have a well-constructed treasury policy and procedures in place, including payment and dealing limits.
- Regardless of the size of the team, have some level of segregation between tasks, particularly in the payment and reconciliation processes.
- Perform regular reconciliation of derivative hedge positions to underlying exposures.
- Have a regular independent review by the audit or internal control department.

Market, liquidity and credit risk

The spectacular failure of Facebook's initial public offering (IPO), which led to the company losing more than \$50 billion in market value (40%) in 90 days, as well as Zynga and Groupon which dropped more than 75% since going public, called in question their business fundamentals and strategy. These companies quickly went from leading lights to laughing stocks in the marketplace. The exposure has also made many other companies skittish about directly tapping the market for funds.

But funding remains an issue for many corporates. Earlier this year, debt-laden directories group Yell dropped around 18% after warning on outlook and banking covenants, and was forced to rebrand as hibu. Many other retail brands have faced similar credit and cash flow problems, such as Comet, Ocado, Hostess and Premier Foods, to name just a few. Experiencing a liquidity crunch meant that these companies have had to slash jobs, shut shops, pull out of non-core markets and go through debt and cost restructuring programmes in order to preserve investor and market confidence – all of which make headline news.

In order to maintain a level of confidence in the business, treasury needs to develop clear, effective lines of communication to its banks, investors, rating agencies and suppliers, in addition to the company's internal stakeholders, advises Sermonia.

An Assistant Group Treasurer at a large travel and leisure group believes that being adequately funded is the most important reputation risk from a treasury perspective. “Any indication that you might breach banking covenants in the current climate triggers a press reaction. This is particularly true if you are a consumer brand and employ a large number of people, as the press interest might go further than just the financial pages.

“The ongoing worldwide recession has made trading conditions hard, squeezing revenues, and the step change to the banking world has added to the pressure on cash flow, as the cost of servicing debt increased,” she adds.

The Assistant Treasurer suggests pushing for additional headroom in facilities, and focusing on working capital and cash management to improve cash flow. Growing revenues is quite difficult in this economic environment, so treasurers need to lead the way in encouraging a cash culture within their organisations. “There is also a role for innovative banks to develop new products to help with both the working capital and cash management and also ways of reducing the needs for credit lines, for example by using insurance rather than indemnification for chargeback risk,” she adds.

In a new development, UK high street names – for example Tesco, John Lewis and National Grid – have gone down the route of corporate bonds aimed at retail investors. The expansion is driven by a retreat in UK banks' lending, which has pushed companies that are not large enough to access institutional public bond markets to look for alternative funding resources. However, already some concerns are being raised that retail investors may not fully understand the potential losses they could be exposed to – which could, in turn, result in a negative backlash for the brands and their banks.

Supply chain stress

The sluggish global economy has put a lot of pressure on the financial strength of suppliers. By rationalising their supply chains during the recession, many companies have become more reliant on fewer suppliers and opened themselves up to severe supply chain risk, not only from supplier distress but also natural disasters and other types of business disruptions.

According to the January 2012 Association for Financial Professionals (AFP) Risk Survey, in collaboration with Oliver Wyman Group's Global Risk Centre, 57% of organisations that view business and operations risks as a major concern identify supply chain disruptions as having the potential for either a "significant" or "very significant" impact on earnings over the next three years. But it is not just earnings that will take a hit if a company can't deliver products to its customers – the market reputation will also come under strain.

Peter Robertshaw, Senior Vice President of Communications, Active Risk, explains how one large manufacturer discovered that it was reliant on a major supplier that would halt the company in its tracks if it was to stop manufacturing. To develop a dual source, the company built its own factory and started producing the part itself.

Mustafa Kilic, until recently the Regional Treasurer and Group Insurance Manager, Group Treasury, Indesit, tells a similar story. In 2009, the home appliances manufacturer decided to embark on a risk audit that also took into account potential future risks. It identified a Japanese manufacturer that was the sole supplier of a critical refrigerator part. In order to mitigate future risk, Indesit sourced a second supplier in Latin America. As a result, when the Japanese earthquake and tsunami hit in 2011 and closed down the original supplier, Indesit was able to protect its business reputation with advance planning. This is in stark contrast to some companies which didn't know that they had exposure until their supply chain had been interrupted.

Kilic believes that business continuity risk is the biggest threat to reputation and promotes the concept of key risk indicators (KRIs). In a similar vein to key performance indicators (KPIs), Kilic explains that KRIs are "triggering items" hidden under the radar that could have a profound effect on the business. These risks are interdependent and could result in a domino effect.

Looking for connections between risks is a developing trend, according to Robertshaw. "Typically in the past the Board would have been presented with a top ten risk list," he says, "but what that was doing was creating a false sense of security. Now people are trying to go beyond the top ten and examine smaller risks that deserve to be looked at because they are highly connected."

He goes back to the BP oil spill, which was a result of several things coming together to "create the perfect storm". "BP is a good example – people are monitoring things at an operational level unconnected to the strategic level, which understands that it can ill afford a conflict with the US government because that will lead to its operating licence being taken away. This is a strategic risk but the operational people wouldn't have seen it," he says.

The treasurer's role

Stheeman believes that treasury is a natural function to have responsibility for enterprise risk management, including reputation risk. "Creating awareness at all levels and ensuring appropriate policies and procedures are in place, as well as having sustainable plans in how to deal with an event leading to reputational damage, are essential," he says.

Marsh's McLaughlin is not fully convinced that the treasurer is the best-placed person, which he believes should be a dedicated chief risk officer (CRO). However, the debate continues as to whether having a CRO allows employees to relinquish responsibility for risk. McLaughlin argues that it depends on how it is executed. "The CRO should have a mantra stapled on the wall which says 'it is not my responsibility to manage risk in this organisation, it is yours'. The CRO is a risk coordinator – they are not responsible for every risk in the organisation," he says.

The final component is making sure that there is a cross-discipline group for crisis and enterprise risk management to develop action plans for safeguarding the company's reputation.

All agree that developing an enterprise-wide response plan that can immediately be put into action is a critical component to managing risk. Robertshaw recounts how when HSBC's ATM network went down in May, the bank immediately responded to complaints on Twitter, by first apologising and then providing progress reports until the systems were up and running again. "Social media commentators then tweeted positively about HSBC's response. Even if something bad happens, you can enhance your reputation if you respond in the right way," he says, but warns that social media, because of its ubiquity and speed, has the power to destroy corporate reputation in seconds. Robertshaw believes that executive Boards are lagging behind in understanding the power of social media.

McLaughlin's advice to corporates is to put in place mechanisms for tracking reputational risks across the enterprise and have a separate reputational risk register to understand the kinds of risk that would undermine the company's reputation. "Part of that is assessing your company's reputational capital and emotional quotient with clients, because this will help to classify your sensitivity to brand risk," he says. The final component is making sure that there is a cross-discipline group for crisis and enterprise risk management to develop action plans for safeguarding the company's reputation. ■



Sustainability: it's the business

In this feature, the first of a new six-part series for 2013, we look at the evolution of corporate sustainability. For forward-thinking companies, sustainable business practices are the only option, but a number of 'dinosaurs' remain unconvinced. Whose side are you on?

The mere mention of 'sustainable business' provokes a range of reactions among today's corporate community. For the cynics, sustainability still conjures up images of animal rights activists or long-haired 'green' campaigners. Others just brush it off as the latest, rather intangible, fad. But for a growing professional contingent, corporate sustainability is becoming a trusted tool in their risk management armoury. So what exactly is sustainable business? What benefits does it offer? How can these be measured? And how can companies evolve from sustainability laggards into sustainability leaders?

Enter the triple bottom line

Back in 1994, the year that the Whitewater Inquiry began, corporate sustainability was very much in its infancy. To

help embed the concept in the mass consciousness of business executives, John Elkington, co-founder of strategic advisory firm SustainAbility, coined the term the 'triple bottom line' (TBL). Through this, Elkington proposed that companies must pay attention not only to financial risks, but to the social and environmental threats to their profitability, too. This trio is sometimes referred to as 'the three Ps': profits, people and planet. By the late 1990s, the idea had gained significant traction, especially among the big global brands and fossil fuel CEOs. As Western consumers became increasingly aware of the use of sweatshop labour and the environmental impact of excessive hydrocarbon usage, corporate sustainability became not only a buzzword but a watchword for cutting-edge organisations.

CSR at Alliance Boots Group

Case study



Source: Alliance Boots

The group's framework of CSR priorities covers the four key areas outlined above. This framework is called the 'scorecard' (see diagram) and is used across businesses within the group. Business plans are presented to the social responsibilities committee for approval and progress against these plans and the scorecard are monitored centrally.

"Corporate social responsibility forms a natural part of our group's business culture," explains Ornella Barra, Chairman of the social responsibilities committee at Alliance Boots. "People lie at the heart of Alliance Boots and our commitment to them is as important today as it has ever been. Our CSR approach continues to reflect this, whether through improving the health of communities around the world, creating healthy workplaces, striving to encourage healthy living or reducing the impact of our activities. As we grow, so too will our commitment to the local communities we serve."

Today, the fundamental pillars of TBL still form the basis of business sustainability; however the approach has evolved beyond a pure accounting play. While there is no globally accepted definition of what sustainable business is, the gist is that by being connected with 'the three Ps', a company can build resilience to external shocks, as well as contributing to the communities around them through sustainable development. According to the World Council for Economic Development (WCED), sustainable development 'meets the needs of the present without compromising the ability of future generations to meet their own needs'.

How are companies interpreting this?

A well-established manifestation of the sustainability drive is corporate social responsibility (CSR). Once again, this is a term that lacks a firm definition, but it broadly revolves around a company taking responsibility for its impact on society and the environment. A typical CSR programme will tackle four aspects of a company's reach:

1. Workplace.
2. Marketplace.
3. Environment.
4. Community.

To see how this might work in practice, let's take a look at how international pharmacy, health and beauty group, Alliance Boots, approaches CSR:

Like Elkington's triple bottom line, the concept of CSR has moved on in recent years. Nowhere is this more evident than in the European Commission's (EC) communication on its 'Renewed EU strategy 2011-14 for Corporate Social Responsibility'. According to this paper, the EC previously defined CSR as 'a concept whereby companies integrate

social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis'.

However, the communication goes on to say that: 'The economic crisis and its social consequences have to some extent damaged consumer confidence and levels of trust in business. They have focused public attention on the social and ethical performance of enterprises. By renewing efforts to promote CSR now, the Commission aims to create conditions favourable to sustainable growth, responsible business behaviour and durable employment generation in the medium and long term.'

Here we see the scope of CSR significantly expanded. This is no longer about paying lip service, or making a few public donations to charity. It's about delivering growth for future generations – whether business owners and employees, or consumers in the community they serve. So, sustainable business challenges traditional CSR, taking a longer-term, more holistic view.

Reaping the benefits

No matter what size your company is, the benefits of embracing this holistic approach to corporate sustainability are numerous. They include:

- **Improved company or brand image.** Consumers are becoming more demanding and expect corporations to act ethically and responsibly. In return, a reputation for integrity and respect can help to build customer loyalty, based on these values. In fact, a 2011 survey by Green is Universal (the sustainability division of US media and entertainment company NBC) found that 68% of consumers believe it is worth paying more for a green product or service if it is a brand they trust.

Enhanced risk management. Many businesses decide to embrace sustainability as a means of recovering from bad press, or mitigating reputational risk – see this month’s Risk Management article on page 34 for more details.

Sustainability also offers companies an enhanced way of looking at risk – one that is broader than traditional enterprise risk management, going beyond economic, strategic and operational factors to consider emerging external risks as well.

- **Cost savings.** These may come in a number of forms, ranging from process efficiencies (eg electronification of paper-based processes) through to more careful monitoring of resource consumption, such as water usage. Elsewhere, experts argue that by minimising certain business risks, sustainability can help to reduce the costs of regulatory non-compliance and litigation, for example.
- **Reduced cost of capital.** A study conducted by the Canadian non-profit Network for Business Sustainability confirmed that companies that ‘implement an environmental risk management strategy reduce their weighted average cost of capital.’ Higher levels of environmental risk management, the study found, can lead to:
 - Greater willingness of debt markets to provide debt financing.
 - Higher tax benefits that partially offset the cost of debt capital.
 - Reduced cost of equity capital from a decrease in systematic risk.
 - Reduced cost of equity capital from an increased dispersion of shares.
- **Supply chain stability.** By acting responsibly towards suppliers, companies are better placed to secure consistent, long-term access to the raw materials and products that they need. Contrary to popular belief, sustainable procurement can actually work out to be cheaper than traditional routes – largely through more transparent relationships.
- **Competitive advantage.** Sustainability enables “enterprises to better anticipate and take advantage of fast changing societal expectations and operating conditions. It can therefore drive the development of new markets and create opportunities for growth,” says the EC. When looking at strategies for becoming sustainable, companies also often take stock of their current business model and examine how they can become more innovative, or gain an edge over their peers.
- **Improved employee satisfaction, morale or retention.** According to a survey released by non-profit community Net Impact in May 2012, employees who have a job that enables them to make a “social or environmental impact on the world are more satisfied with their job by a 2:1 ratio”. And when employees are happier, they are more productive.

What is more, many reputable reports show a strong correlation between a company’s sustainability credentials and its financial and stock market performance. ‘Companies that are considered leaders in environmental, social and governance (ESG) policies also lead the pack in stock

performance – by an average of 25%,’ according to a 2007 Goldman Sachs report, which it released alongside the launch of a sustainable investment focus list, GS SUSTAIN.

Best practice implementation

With the benefits outlined, how does a company put a workable sustainability programme in place? The following five-step process provides a good outline of the stages required, although somewhat simplified:

1. Envision.
2. Engage.
3. Map.
4. Perform.
5. Measure.

The most difficult of these five steps for the majority of businesses is engagement. With a well-researched business case behind it, sustainability should be a no-brainer for the C-suite. But while buy-in from top-level management is essential, so too is buy-in across the business. Securing this will depend to a large extent on how robust the company’s proposed sustainability policy and framework is. This is where specialist consulting firms can add real value.

Placing sustainability representatives throughout the organisation can also be invaluable in ensuring enterprise-wide engagement. Alliance Boots, for example, has a ‘champion’ in most businesses with responsibility for defining and delivering local CSR priorities and targets in line with the group’s overall objectives. All champions are supported by the company’s CSR Director and Co-ordinator, who provide guidance and additional expertise on working within the group’s CSR framework. Colleagues from a number of departments including, human resources (HR), communications and finance also support the work of the champions.

Sustainability metrics

Measuring the company’s progress against its sustainability goals is often the second most challenging step. While every company will have different requirements for sustainability metrics that ensure compliance with the stated goals of its programme, examples of indicators that could be easily and effectively monitored are (in no particular order):

- Customer satisfaction and loyalty levels.
- The number of customer complaints.
- The social impact of the company’s core product or services.
- Energy and water consumption.
- Waste sent to landfill.
- Carbon footprint.
- Environmental impact of the company’s supply chain.
- Workforce diversity.
- Number of staff grievances.
- Level of staff turnover.



Launched in January 2007, Plan A is UK retailer Marks & Spencer's sustainability drive. The company originally set out 100 commitments to achieve in five years. That has now been extended to 180 commitments to achieve by 2015, with the ultimate goal of becoming the world's most sustainable major retailer. Through Plan A, the company is working with its customers and suppliers to combat climate change, reduce waste, use sustainable raw materials, trade ethically, and help customers to lead healthier lifestyles.

In 2012, Marks & Spencer (M&S) sent zero waste to landfill. It is also now a carbon neutral company. Since April 2012, M&S has stopped selling confectionery designed to appeal to children. These are just three examples of how the company is making a real difference.

"Plan A is how we do business at M&S – it involves our customers, our employees, our suppliers and our suppliers' suppliers. We are fully committed to it," says Marc Bolland, CEO, Marks & Spencer. The initiative is called Plan A "because we believe it's now the only way to do business. There is no Plan B."

M&S was named Responsible Retailer of the Year in the 2012 World Retail Awards.

- The percentage of suppliers and partners screened for human rights compliance.
- The percentage of suppliers and partners meeting sustainability requirements.

Not only does having metrics in place allow companies to measure their progress, the process of defining the correct metrics can actually help to cement the organisation's sustainability goals and priorities. Moreover metrics can assist in reinforcing personal and organisational accountability, as well as improving internal and external communication around the success of the company's sustainability drive.

Global leaders in sustainability

The best practice steps outlined above are designed to bring sustainability laggards into the 21st Century. Going the extra mile and becoming a sustainability leader requires something extra special: genuine, deep-rooted commitment. The case study above illustrates the difference.

Being a sustainability leader isn't just about the accolades though. In a world where companies increasingly have to compete for resources, corporate sustainability will – sooner rather than later – become the 'new normal'. And now is the time to get ready, because sustainable business models aren't put in place overnight. ■

World's top 20 sustainable companies		
Company	Rank	Country
Novo Nordisk A/S	1	Denmark
Natura Cosmeticos S.A.	2	Brazil
Statoil ASA	3	Norway
Novozymes A/S	4	Denmark
ASML Holding NV	5	Netherlands
BG Group plc	6	UK
Westpac Banking Corporation	7	Australia
Vivendi S.A.	8	France
Umicore S.A./N.V.	9	Belgium
Norsk Hydro ASA	10	Norway
Atlas Copco AB	11	Sweden
Sims Metal Management Limited	12	Australia
Koninklijke Philips Electronics NV	13	Netherlands
TeliaSonera AB	14	Sweden
Life Technologies Corporation	15	US
Crédit Agricole S.A.	16	France
Henkel AG & Co. KGaA	17	Germany
Intel Corporation	18	US
Neste Oil Oyj	19	Finland
Swisscom AG	20	Switzerland

Source: Corporate Knights

The next article in this series will appear in the **March edition of Treasury Today Asia**. It will examine sustainability within the treasury department, from what initiatives can be put in place, to treasury's role in upholding and driving the company's sustainability aspirations.

Treasury management systems

For the modern treasury department managing the financial activities of a business manually with spreadsheets can be an extremely risk-laden and time-consuming task. This is particularly true for many multinationals operating in the Asia region, many of whom have to contend with constantly changing regulations and region-specific requirements. Investing in a treasury management system (TMS) is one option that could help corporates meet such challenges.

What is a TMS?

A TMS, sometimes referred to as a 'treasury workstation' in the US, is a software platform used by corporates to automate, record and control a host of core treasury functions. In addition to these functions, a TMS also acts as a database for core information, such as bank account data, that passes through the treasury department.

The TMS was first pioneered in the mid-1980s with the ultimate goal of bringing about full straight through processing (STP) – that is the complete automation of all standard or day-to-day treasury processes.

These processes, when performed manually, can expose treasuries to a substantial level of operational risk, says Pole Yu, Regional General Manager for IT2 Treasury Solutions, Asia Pacific. "Spreadsheets can be complex to manage," he says. "They do not offer a controlled workflow and are dependent on the accuracy of human data inputs. As a result, they expose treasuries to the operational risk associated with highly manual processes.

"A critical eye and high levels of attention and expertise are required when using treasury spreadsheets," he adds.

The ultimate objective of STP is to minimise manual requirements and allow treasurers to focus more energy on activities that really make a difference, says Mike Fullmer, SunGard's Senior Vice President for the Asia Pacific region. "The things a treasurer can impact," he says, "are the things that are coming in the future – tomorrow, next week or next month."

"Treasurers should be focused on where the market is moving," Fullmer adds. We put systems in place that removes the need for manual intervention, which can cause errors, and instead get the treasury team focused on where they can actually impact the forward planning for their company."

An overview of the current market

For corporations looking to make an investment in TMS software, there is a wide range of products available on the market, with substantial variations in terms of both complexity and price. However, most TMS products on the market will include the following basic functions:

- Static data storage (database).
- Reporting facility.
- Automation of standard treasury transactions and accounting entries.
- Workflow and security controls.
- Access to trading facilities.
- Back office processing facilities.

Since TMS technology was first introduced, the cost of purchase and implementation has fallen considerably – partially as a result of technological advancements. The market has also expanded substantially over this period. In the beginning there were relatively few vendors and nearly all the products were 'high end' – targeted for use by the largest corporate treasuries or banks. But now there is a lot more choice in the market, from expensive bespoke solutions tailored principally for the demands of large multinationals to much cheaper off-the-shelf packages that are designed for smaller organisations' use.

There is no single TMS solution that is right for every corporate. The particular type of solution that a corporate adopts will largely depend on what they are trying to do. "We don't try to put the same solution in for everyone," Fullmer says. "We always look closely at the particular requirements of the company we are dealing with. Are they going into multiple markets? Do they have FX exposure? Do they have a lot of money in different countries and with different bank accounts? How are they forecasting their cash and how are they managing the receipts coming in?"

The particular type of TMS solution a corporate chooses to adopt, says IT2's Yu, will largely depend on the degree of organisational complexity. This can be measured by a number of different factors, such as the dealing volume, international and multicurrency profile, subsidiary structure, funding and compliance requirements.

"Every business is different," Yu says. "Quite often a treasury will find itself struggling with daily workflows, unable to provide sufficiently timely, up-to-date answers to the key treasury questions. Although the buck stops with the auditors, senior management may require better reporting or have specific concerns, perhaps over the impact of FX exposures on earnings volatility or efficient use of capital or bank facilities.

Spreadsheet, ERP system and TMS - a comparison		
Tool	Advantages	Disadvantages
Spreadsheet.	Flexible.	Not robust.
	Cheap.	Not secure.
	Easy to use.	No value-added functionality.
Enterprise resource planning (ERP) system.	Enterprise-wide.	Expensive to implement.
	System not specific to treasury; common data available across the organisation.	Not mission-specific.
Treasury management system (TMS).	Mission-specific.	Separate investment needed.
	Robust.	Design effort needed.
	Secure.	
	Ease of integration.	
	Ease of use.	
	Dependable reporting.	
	Best practice for treasury.	

Source: IT2 Treasury Solutions

“In the Asia Pacific business environment, where growth may depend on engagement in a dynamic, multicurrency environment, it’s a situation we encounter more and more frequently,” he adds.

Benefits for corporates in the Asia Pacific region

According to Yu, uptake of TMS solutions in the Asia Pacific region has yet to reach the level of Western counterparts, and many are continuing to rely on older, spreadsheet-based or legacy systems developed in-house. However, since the 2008 financial crisis there has been a noticeable spike in demand amongst Asian corporates for new TMS. One of the reasons for this, Yu says, could be the increased focus on liquidity management which resulted from the financial crisis. In an economic environment where credit has become increasingly scarce and expensive, corporations globally have had to focus, more than ever, on gaining up-to-the-minute visibility of their working capital, in order to reduce their dependence on external credit lines and to optimise investment returns.

“This information is of maximum value when it reflects the current and near-term position of the enterprise,” he says. “TMS offer mission-specific tools to display and report this information completely, accurately, on-demand and, if appropriate, in real time. The TMS can automatically assemble, organise and report the information from all relevant sources, including bank account balances, opening and maturing treasury transactions, treasury flows such as interest payments and dividends, and commercial payable and receivable flows.” And achieving greater global visibility of cash, he adds, is essential in order to gain timely visibility of financial risk.

The vast majority of corporates in Asia operate across multiple markets and, as a consequence, are regularly dealing with different currencies, different regulatory regimes, as well as needing to co-ordinate with different business units. In such a complex environment having the correct treasury technology in place becomes increasingly vital, SunGard’s Fullmer says. “To be able to manage that effectively you often need some assistance to pull that data together, otherwise you are going to be the ones running around manually trying to deal with that.”

This requirement is linked to the arguments concerning centralisation and decentralisation, he argues. An effective

TMS solution can provide corporates with the means of centralising certain information without necessarily centralising power. He gives the example of a company operating within China: to operate in such a tightly controlled market will often require relationships and funds to be managed by a team within that country. With the right TMS solution, Fullmer says, a company is able to centralise these functions without excluding headquarters from the decision-making process. “What we have seen is that companies operating in some heavily regulated Asian markets are able to have local controls and make local decisions – but management is getting better visibility over what is going on.

“A TMS can enable a multinational to have one central source of truth when it comes to information so that, at the group level, the CFO can clearly understand where the company stands and they are not just chasing after reports,” he says.

Looking ahead

There is little doubt that the TMS technology has changed substantially over the past decade, with today’s platforms providing tools for the automation of a wide range of treasury responsibilities including dealing, reporting and risk management. But how can it provide even greater support to the corporate treasurer?

Although it remains a relatively new concept yet to be fully validated from a security perspective, mobile technology, Fullmer believes, may well be the next big thing in the TMS market.

“Mobile technology is definitely one of the areas that vendors are looking to expand into in the future; but speaking to companies it is clear that there are still security concerns,” he says, explaining that there remains a degree of resistance from IT departments within some multinationals to the idea of allowing a treasurer to access their network over a mobile device.

Notwithstanding the concerns Fullmer alludes to, there is agreement that the optimisation of TMS for use on mobile devices is an important advancement – indeed, both IT2 and SunGard already provide mobile apps to their clients. “It is a major development and a natural evolution,” Yu says. “We expect to see more treasurers picking up where they left off across a variety of devices.” ■

Net profit margin

One of the key performance indicators (KPIs) used by investors to evaluate the performance of a particular company is the net profit margin. The formula shows how much of a company's sales result in profit and how much is lost through, for example, depreciation or tax. Additionally, the calculation can also provide companies with the information needed for determining the effectiveness of cost control measures within their organisation. A comparatively high profit margin can be very advantageous for a business, by providing a cushion to protect the company when markets contract. Equally, a company with a relatively low net profit margin may well be faced with a higher than average risk in the event of a downturn.

Calculating net profit margin

Net profit margin is calculated by taking after-tax net profit and dividing by net sales. The formula set out below is the one typically used in most finance textbooks.

$$\text{Net profit margin} = (\text{net income}/\text{net sales}) \times 100$$

Net sales may also be referred to as sales, sales revenue or net revenue.

Some financial analysts will additionally incorporate minority interest into the calculation, in order to provide a snapshot of the given company's profitability prior to payments made to minority owners.

Example

Company ABC	2011	2012
Net sales	¥6, 520,745	¥6, 921,606
Net income	¥672,539	¥731,934
Net profit margin	10.31%	10.57%
Company XYZ	2011	2012
Net sales	¥8,318,443	¥7,947,302
Net income	¥715,556	¥728,970
Net profit margin	8.60%	9.17%

In the above example, company ABC averaged a profit margin of 10.44% over the past two financial years, which is the equivalent of saying that for every yen of net sales in that period the company generated a net profit of ¥0.140. As the figures show, the company made more profit per yen of expenses in 2012 than it did in 2011. This fluctuation could potentially be explained with reference to a range of active factors: for example procurement costs, increased prices for the company's products or services, and efficiency improvements. Alternatively, the changes could be the result of market-based factors, such as falling commodity prices.

Profit margins inevitably vary by industry. However, when two companies are competing in the same sector against one another the sum can be particularly useful to determine which company is performing best and, therefore, represents a better investment opportunity. Let us suppose that both of the companies in the above example are software developers based in Japan. Over the period 2011-12, company XYZ averaged a net profit margin of 8.89% compared to company ABC's 10.44%. So despite generating less sales revenue during the two-year period than company XYZ, company ABC may, according to the net profit ratio, represent a higher quality investment.

The above comparison, however, could provide a misleading benchmark if it is not compared to the industry average. For example, if the industry average for a Japanese software developer is an 18%, net profit margin, then it would seem that neither company has performed as well as their industry competitors over the two-year period. ■



INSIGHT AND ANALYSIS

Cloud computing for treasurers

Is cloud technology the 'next big thing' in Asia? Across the region barriers such as security and regulatory issues persist, making companies wary about moving too fast.



ASIA PRACTICE

Managing talent

Good people are hard to get – and keeping them is even harder. How can treasury attract top talent in Asia? What programmes can be put in place to help treasury professionals advance their careers?



TREASURY TRENDS

Bank relationships

As corporate treasurers look to share wallet with their banking partners, many are waking up to the fact that it is a two-way street. Having a heart-to-heart discussion with your banks as to what they need to get out of the relationship will have a positive effect and deepen the relationship as a whole. It is then you will see a shift to substance over style.

We always speak to a number of industry figures for background research on our articles. Among them this month:

Sanmit Ahuja, CEO, ETI Dynamics; **Ornella Barra**, Chairman of the Social Responsibilities Committee, Alliance Boots; **Carole Berndt**, Head of Global Transaction Services EMEA, Bank of America Merrill Lynch; **Marc Bolland**, CEO, Marks & Spencer; **Alain Bridoux**, Senior Advisor, Transnations; **Mingmei Chang**, Vice President of Corporate Liquidity in China, SunGard; **Simon Constantinides**, HSBC's Regional Head of Global Trade and Receivables Finance, Asia Pacific; **Brian Coulton**, Emerging Market Strategist, Legal and General Investment Management (LGIM); **Frederique Covington Corbett**, Microsoft's Central Market Organisation Lead for Asia Pacific; **Rohan Douglas**, CEO, Quantifi; **Marie-Astrid Dubois**, Assistant Treasurer EMEA and Asia, Honeywell; **Steve Dwyre**, Managing Director, Industrials and Technology, Media and Telecommunications (TMT), Lloyds Banking Group; **Christina Easton**, Principal at Treasury Dynamics LLC; **Mike Fullmer**, SunGard's Senior Vice President for Asia Pacific; **Chaoqun Gao**, Treasury Manager China, Heraeus Shanghai Management Consulting Co. Ltd. (Shanghai); **Damian Glendinning**, President Association of Corporate Treasurers (Singapore) and Treasurer, Lenovo; **Robert Hare**, Director of Specialist Banking, Lloyds Bank Commercial Banking; **Mustafa Kilic**, ex-Regional Treasurer and Group Insurance Manager, Group Treasury, Indesit; **Dr. Kevin Lin**, Managing Director, KL Communications; **Eddie McLaughlin**, Managing Director at Marsh Risk Consulting; **Rajesh Mehta**, EMEA Head of Treasury and Trade Solutions, Citi Transaction Services; **Janet Ming**, Head of China Desk EMEA, RBS; **Julia Persson**, Deputy Head of Corporate Treasury, A.P. Moller – Maersk Group; **Sophia Porcelli**, Director Treasury, AkzoNobel, Asia Pacific; **Tanuja Randery**, CEO, MarketPrizm; **Stuart Ridley**, Manager – Treasury, Robert Walters Recruitment; **Peter Robertshaw**, Senior Vice President of Communications, Active Risk; **Rey Sermonia**, ex-Treasurer, Qatargas; **Anna Shevchenko**, Managing Director, 3CN; **Lillian Sim**, Regional MNC Sales Head, Asia Pacific, J.P. Morgan Treasury Services; **Paul Stheeman**, Treasury Consultant; **Kah Chye Tan**, Global Head of Trade and Working Capital, Barclays; **Ruth Wandhöfer**, Head of Regulatory and Market Strategy, Citi Transaction Services; **Gary Williams**, General Manager Treasury, Mitsubishi Corporation International (Europe); **Pole Yu**, Regional General Manager, Asia Pacific, IT2; **Eileen Zicchino**, Managing Director and Chief Marketing Officer (CMO), J.P. Morgan Treasury Services.

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