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Centralisation of cash management: still advisable?

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Aim: This article builds upon recent evidence that centralisation of cash management activities, often advocated by enthusiast protagonists from the academic, corporate and consultancy world, has given way to decentralisation thereof. The aim of the article is to underpin the idea that such moves may be good.

Research design: The article provides an historical overview on the centralisation starting in the 1980s, stagnating later on and reversing recently, not just for reasons of political tensions and pandemic reasons.

Findings: There are structural reasons for firms being more critical on centralisation of cash management, including still lasting limits to its implementation and recent changes in the corporate and finance sectors.

Originality: The present study argues that firms may rightfully decentralise the cash management, while also making clear to there are no "one fits all" solutions to the issue.

Implications: Firms may want to overthink the organisation of their cash management in the light of new developments. Follow-up research in terms of case studies and surveys may help to further guide them.

Keywords: cash management, (de-) centralisation, role of banks
JEL: B27, G20, L23

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1. Introduction setting the stage

Management of cash and its equivalents in terms of readily liquid assets is by no means a trivial issue for many companies. In fact, what will be denoted as cash from now onwards often comprises more than 10% of their balance sheet totals (Von Eije, 2021). Being both a resource for making business as well as a residual outcome thereof, cash is much intertwined with the daily operations and beyond. In this sense, it is surprising that up until some 30 years ago or so, cash management had received so little attention that people could rightfully ask: "Cash management: is there any science?" At the time, corporations used some rules of thumb, basic cost/benefit or marginal analyses and perhaps inventory-type of models to arrive at indications for optimal cash levels and that was basically it. However, meanwhile things had started to change.

Financial markets had started to become more efficient, less segmented and more complete (Westerman, 2020). Also, computerisation of activities had made progress with both hardware and software development spurts. Large industrial conglomerates had been formed and multinationalisation of affairs had become more widespread. Albeit with quite some delay, laws and rules had become more liberalised, deregulated and harmonised. A new type of manager, less bureaucratic, more schooled and younger of age, had appeared at all levels. Creating shareholder value was one of the buzzwords of the time. Consequently, corporate cash management had come under scrutiny in terms of effectiveness and efficiency. One of the ideas was to centralise cash management tasks that had formerly routinely been the responsibility of unit staff. Namely, international cash management was thought to be field where windfall-like profits could be had. Among the first academics to realise this was the Dutchman Luc Soenen (1985).

2. The golden decades of centralisation

Speaking of windfall profits in cash management: one of these came along with the tailwind in the course of the ‘Europe 1992’ policy of what became known as the European Union afterwards. A bunch of economic policies, fuelled by a big bang on January 1, 1993, led to decreasing currency volatility, harmonisation of interest rates and lower transaction fees spreading out over all of Europe. Case studies showed that netting of mutual intracompany and even intercompany obligations, pooling of bank accounts (whether virtual or actual), as well as the erection of payment factories and house banks at companies could really make a difference for both the profit and loss account as well as the balance sheet, with net present values of the small investments needed assumed to be sizeable (Boom et al., 1996; Von Eije and Westerman, 2002; 2005).

3. Admitting the limits to centralisation

Of course, academics were by far not the only ones studying the topic. Actually, readily banks, providers and consultants took the lead, stressing the same message over and over again: do centralise your cash management affairs like the others and don’t do the job all on your own but do it with our help. According to Polák and Roslan (2009), the modern business environment has not only seen organizations centralize cash management as a function of treasury management, but also other functions of treasury management such as risk management and assets and liabilities management, as firms followed policies that allowed them to centralize their approach and increase their cash holdings. It is fair to say that this message was general one, being conveyed by enthusiastic cash managers as well. However, a case study on the Dutch Royal Philips (Blenken Blijdenstein and Westerman, 2008, p. 324) had to conclude: “World-class multinationals still have to manage their cash on a country-specific basis.” There are insurmountable limits to the centralisation of cash management due to

1) country limits: local regulations, fiscal rules and reporting rules,

2) bank limits: feasibility of global banks, ICT issues and cost/return trade-offs,

3) internal limits: break-even points, reorientations and control issues, as well as

4) behavioural limits: motivations on the company, house banks and ICT suppliers.

With hindsight, above the analysis could have been broadened to allow for corporate mission and strategy directions, as well as corporate culture and ethics considerations, all of which do allow for or even require diversity amongst companies and down to their units anyway. Various other issues also kept triggering (Polák and Klusáček, 2010; Polák et al., 2011; Bartsch, 2014; Polák et al., 2018; Bartsch, 2019; Westerman, 2020). In practice, whereas companies were shown in surveys to plan for centralisation, they did not really show to do so (The Global Treasurer, 2009). Moreover, there was a global financial crisis in 2008/09 and beyond that made companies to overthink bank relationships, including those on cash management. Also, the legislation on third party access of bank account data, accelerated non-bank payment systems development and an eruption of digital (non-bank accepted) coins made one wonder whether centralisation still works. On top of this, practitioner experiences on customer relationships required complex action at the local spot instead of at the central level.

4. The discovery of decentralisation

Then, recently, two surveys landed in the open (Tietoevry / The Global Treasurer, 2022; CGI / The Global Treasurer, 2022). Whereas their significance can be questioned, such as is unfortunately often the case, our question mark was confirmed. One survey had even hinted at a centralisation trend in a question header, but both made it clear that the trend actually had reversed. Current political and pandemic tensions would be partially due to this, but it was also admitted that there were structural reasons as well. We hastily note, however, that whereas some surveys now agree on a change of the old trend, it is by no means true that all companies should decentralise (every part of) their cash management. In the future, things may reverse again. Also, the issue may not be of much importance to quite many firms, since their cash management environment may not have changed much.

5. The role of academia in the debate

Perhaps oddly, no theory or whatsoever has been mentioned above. Spraying out big words along with all kinds of details on pro's and con's of centralisation has shown to be pointless. It can either be centralized or decentralized, but it has to be coordinated one way or the other. Actually, one can reason that cash management would not matter in a perfect Modigliani and Miller world, but that Williamson-type of transaction cost economics considerations make that it does so. Actually, not just determining cash levels is a matter of tweaking (Von Eije, 2021; Gonenc et al., 2022), but just like 30 years ago and even before, broadly taken cost/benefit analyses do matter, supporting the idea of (de-) centralisation of corporate cash management as a matter of fine-tuning instead of pre-set conviction.

When the field of cash/treasury management developed as from the 1980s onwards, people in both business and academia were sceptical. The businessmen argued that whereas the field was intriguing and hot at the time, most of the work would be automised or done by secretaries over time and indeed this largely became true, but not wholly. The academics had it that there was not much to be told to them, as indicated by the "any science?" exclamation above. However, with the tables seemingly having turned, it would be great if someone would resume the idea of studying cases and performing surveys in an academic light. When is centralisation of cash management advisable and when is it not?

6. Towards a new guideline?

Indeed, the still seemingly common urge for centralisation should be questioned. Decentralisation of cash management functions, and not their centralisation, could be a direction to head for. Heeks (1999) already argued that centralized treasury management is inflexible due to bureaucratic decision-making. Whereas an argument for centralisation was that unit and lower level staff would feel relieved to be freed from mixed responsibilities, nowadays, they may rather like to resume these in order to enrich their work and to keep abreast of things in their field. This is not to say that guidance from the holding level may not be needed, with also consultancies and advisory bodies being down and out, but that the actual decision-making is to be laid at the lowest possible level and that fine-tuned mastering is to be the idea. Be honest: if ever having been with us, the time of one-fits-all solutions is over.

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