



Redesigning Cash Management In Banking Using ERP

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ABSTRACT

The aim of this paper is to analyze aspects of organizational change induced by using process reengineering to implement new information technology (specifically an ERP system) on treasury department and its processes. Based on an intensive case study, the paper explores the changes in the treasury department of a large private banking Company that implemented the SAP R/3 system. The results suggest that change had important repercussions on the technological, organizational and human dimensions of the treasury department. Evidence is also provided of the inter-relationship between these different dimensions.

Keywords : Cash Management, Business Process Reengineering, ERP Systems

Introduction

Any organization, big or small, with or without a profit motive, public or private, manages the monetary flows which take place in the development of its activity. Since these flows are essential for the correct working of any organization, Cash Management (henceforth, CM) has become a critical function (Martino, 1998).

Basically, CM aims to invest monetary funds when there are surpluses and to obtain them when there are deficits (Helliard, 1998). This task is the responsibility of Treasury Department (henceforth, TD) which has extended its activities (Greifer, 2001), in order to participate more in business strategy development (Phillips, 1997). In this way, TD has evolved from the realization of routine tasks, such as the transactions register and processing, to be a department which makes decisions on monetary flows, financial instruments and risks, relationships with the financial entities and investors (Teigen, 2001). In this sense, we can refer to an evolution during the 1980s from an Operative Treasury to a Management Treasury (Torre, 1998; Heywood, 1999).

Several circumstances have contributed to this evolution, among them (Heywood, 2000; Mulligan, 2001): (1) the higher emphasis on the efficient use of capital; (2) the imperative of creating value for the shareholders through an appropriate management of financial risks; (3) the innovation in the financial instruments; and (4) the information technologies (henceforth, IT) advance.

Among the most extended IT for CM, we can point out treasury software, both specific and standard, electronic banking (Charro and Ortiz, 1996), Internet banking (Wilson, 2001), and ERP systems (Makela, 1999; Brandman, 2000; Thurston, 2000). These technologies have enabled, for example, the development of collection and payment instruments for business transactions and the establishment of closer relationships between companies and financial entities.

Implementation of system-cash

The TD was a part of the Financial Area which itself was

located within the Economic and Financial General Direction of Energy. This TD shared the Energy organizational culture that was mainly paternalistic. In this sense, the employees enjoyed stable jobs with good salaries and good working conditions. They were proud of being part of Energy and, therefore, very loyal and patriotic to the company.

A treasury standard software was implemented in the TD of Energy at the beginning of 1996. This application, which was called System-Cash, was requested by the employees themselves to automate and to speed up their activities. The receipt of the payment and collection data that came from other departments¹ was obtained through interfaces designed to this effect, while electronic banking was implemented for communication with financial entities.

Therefore, the CM of Energy was supported by this system that resulted in several advantages, among them: (1) the activities automation, like the data record or interests liquidation control; (2) an increase of the percentage of reconciled data, since the system incorporated new reconciliation modalities and it enabled consideration of more parameters than the previous system; (3) the possibility of analyzing and simulating transfers in the credit policies management, as well as to simulate operations in short and long term financing or investment with the consideration of different types of treasury forecasts; (4) the supply of more complete information that could be electronically processed; and (5) the increased speed of information access, mainly due to electronic banking.

Survey of Industry ERP Implementations

ERP implementations completed between 1995 and 1998 in India can give a sense of specific hurdles that companies may encounter in ERP deployment. Several companies were surveyed, and numerous ERP professionals were interviewed in order to assess the state of ERP in India.

The results indicate that Indian companies are moving forward with ERP implementation primarily in response to thrusts from parent collaborators, to revamp in order to meet increased load, or to reduce lead times and inventory levels, and improve customer satisfaction.

Discussion

According to the CM classification elaborated by López (1996), we can say that the TD of Energy was responsible for Internal CM of the organization, while Commercial, Internal Control and Personnel carried out the External CM, since they also impacted on the monetary flows of Energy.

The requirement of the employees of the TD of Energy to carry out the Internal CM was satisfied by System-Cash. However, when Energy was acquired by Spainfield Group, the implementation of the treasury SAP R/3 module was necessary, as the Group wanted to get the operative integration and the step forward was the constitution of a Corporate Treasury which was responsible for the CM of the Group.

Spainfield Group adopted a reengineering approach to implement the treasury SAP R/3 module. Following Hammer and Champy (1993), the reengineering was: (1) fundamental, since the rules relating to the CM of the subsidiaries were analyzed and they were modified to get homogenization; (2) spectacular, since the efficiency of the Treasury at group level was improved significantly and this was reflected in the CM processes improvement with a lower costs (of personnel and system license and development); (3) focused on the Treasury processes and on the different activities which compose these processes; and (4) radical, but not at the level indicated by these authors, as the new processes were adjusted to the new system and their redesign didn't involve reinvention of the CM.

Concluding Comments

Based on our case study, we have provided evidence of the impact of process reengineering to implement new IT, specifically an ERP system, on the TD of an organization and its CM processes. Our evidence shows that the implementation of the treasury SAP R/3 module had significant repercussions not only on the technological dimension, but also the organizational and human

dimensions of the TD. Also, there is evidence of inter-relationships between the different dimensions.

On the other hand, the reengineering of CM processes to implement the treasury SAP R/3 module caused loss of jobs that in turn resulted in the loss of trust and loyalty of the employees for the company, and uncertainty between the employees who also experienced feelings of anguish, impotence, conformism and even resentment. In conclusion, Energy lost its paternalistic organizational culture. In this sense, we conclude that, based on our case study, the impacts of the analyzed organizational change on the human dimension of the organization depend on both the content of the change and the way in which the change is implemented. In the case of the TD of Energy, the human dimension wasn't considered by the people responsible for the implementation of SAP R/3 and this caused a higher resistance to the change. This lack of participation in the implementation of reengineering projects has been mentioned as a reason for the failure of such projects (Grover et al., 1995).

These measures weren't present in Energy and they could have enabled "a more human reengineering" (Cooper and Markus, 1995).

Furthermore, the case of Energy has confirmed some significant aspects about the CM current evolution, such as the necessary relationship between Treasury and Accounting (Helliar, 1998), the higher orientation of the CM toward management tasks (Torre, 1998; Heywood, 1999), the reinforcement of the relationship between organizations and financial entities (Teigen, 2001), although with a lower number of them (MacDonald, 2001), and the trend in large business groups towards the CM centralization (Large, 2001; Mulligan, 2001).

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