Evaluation of a cash pooling system and analysis of it's impact on a company's financial performance: Case study of Djezzy / Veon.

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Abstract

Since the 1980s, the economic world has undergone unprecedented change, marked by exponential growth in global investment and the implementation of complex financial structures. Against this backdrop, efficient cash management has become a major issue for companies, particularly for groups with geographically dispersed subsidiaries.
This paper explores the concept of centralized cash management within a group and the implementation of a cash pooling system. This approach makes it possible to consolidate cash flows from different group entities in order to optimize overall financial management.
The main objective of this work is to analyze the advantages and challenges associated with cash pooling, and to examine the various aspects of implementing a cash pooling system.
We will examine the theoretical underpinnings of cash pooling and the main cash pooling mechanisms, focusing on legal, operational, and financial aspects. In this context, our study will also address the key factors to be taken into account when designing and implementing an effective cash pooling system.
We will explore regulatory, tax and risk management considerations, as well as the potential advantages and disadvantages for different group entities. In addition, we will look at best practices and case studies to illustrate how some companies have successfully implemented a successful cash pooling system, and the lessons that can be learned from them.

Keywords: Finance; Treasury; Subsidiary; Centralization; Cash pooling

Résumé

Depuis les années 80, le monde économique a connu une évolution sans précédent, marquée par la croissance exponentielle de l'investissement mondial et la mise en place de structures financières complexes. Dans ce contexte, la gestion efficace de la trésorerie est devenue un enjeu majeur pour les entreprises, en particulier pour les groupes ayant des filiales dispersées géographiquement.
Le présent article se propose d'explorer le concept de centralisation de trésorerie au sein d'un groupe et la mise en place d'un système de cash pooling. Cette approche permet de consolider les flux de trésorerie provenant des différentes entités du groupe afin d'optimiser la gestion financière globale.
L'objectif principal de ce travail est d'analyser les avantages et les défis associés à la centralisation de trésorerie

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et d'examiner les différents aspects de la mise en œuvre d'un système de cash pooling.
Nous nous pencherons sur les fondements théoriques de la centralisation de trésorerie et les principaux mécanismes du cash pooling, en mettant l'accent sur les aspects juridiques, opérationnels et financiers. Dans ce contexte, notre étude abordera également les facteurs clés à prendre en compte lors de la conception et de la mise en place d'un système de cash pooling efficace.
Nous explorerons les considérations liées à la réglementation, à la fiscalité, à la gestion des risques, ainsi qu'aux avantages et aux inconvénients potentiels pour les différentes entités du groupe. En outre, nous examinerons les meilleures pratiques et les études de cas pour illustrer comment certaines entreprises ont réussi à mettre en place un système de cash pooling performant, et les leçons qui peuvent en être tirées.

Mots clés : Finance ; Trésorerie ; Filiale ; Centralisation ; Cash Pooling

ملخص

منذ الثمانينيات، شهد العالم الاقتصادي تغيرًا غير مسبوق، تميز بالنمو الهائل للاستثمار العالمي وإنشاء هياكل مالية معقدة. في هذا السياق، أصبحت الإدارة الفعالة للنقد قضية رئيسية للشركات، خاصة بالنسبة للمجموعات ذات الشركات التابعة المتفرقة جغرافيًا.
يقترح هذ ا المقال العلمي استكشاف مفهوم مركزية النقد داخل مجموعة وإنشاء نظام تجميع نقدي. هذا النهج يجعل من الممكن توحيد التدفقات النقدية من الكيانات المختلفة للمجموعة من أجل تحسين الإدارة المالية الشاملة.
الهدف الرئيسي من هذه الرسالة هو تحليل المزايا والتحديات المرتبطة بتجميع النقدية ودراسة الجوانب المختلفة لتنفيذ نظام تجميع النقدية.
سننظر في الأسس النظرية لتجميع النقدية والآليات الرئيسية لتجميع النقدية، مع التركيز على الجوانب القانونية والتشغيلية والمالية. في هذا السياق، ستناقش دراستنا أيضًا العوامل الرئيسية التي يجب مراعاتها عند تصميم وتنفيذ نظام تجميع نقدي فعال.
سوف نستكشف الاعتبارات المتعلقة بالتنظيم والضرائب وإدارة المخاطر، فضلاً عن المزايا والعيوب المحتملة لكيانات المجموعة المختلفة. بالإضافة إلى ذلك، سننظر في أفضل الممارسات ودراسات الحالة لتوضيح كيف نجحت بعض الشركات في تنفيذ نظام ناجح للتبرز النقدي والدروس التي يمكن تعلمها.

الكلمات المفتاحية: التمويل؛ الخزينة؛ الشركة الفرعية؛ المركزية ؛التجميع نقدي

1. Introduction

The group faces a number of cash management challenges. Companies operating in several countries face difficulties such as high financing costs, increased complexity in cash flow management and currency risks. In this context, cash pooling can be an effective solution for centralizing the group's liquidity and improving its cash management.
Cash pooling enables the cash flows of a group's various entities to be centralized in a single account, thereby reducing financing costs, optimizing cash management, and improving control over cash flows. By using this technique, companies can also reduce foreign exchange risks by limiting currency transfers between group entities.
In this work, we take a closer look at the application of cash pooling in the context of a multinational company and analyze the advantages and challenges associated with this practice. We also take a close look at the case of a specific company to better understand the strategic choices made in terms of cash management and the results obtained. We hope that this study will provide a better understanding of cash management practices in the context of international companies and contribute to the existing literature on this subject.

1.1 Problem statement:

What is the company trying to achieve by designing and implementing a cash pooling system, and what impact does it have on decision-making?

1.2 Hypowork:

1. Implementing a cash pooling system within a group will enable better management of liquidity and optimization of financial resources.
2. Centralizing cash will help to reduce external financing costs and maximize returns on cash surpluses.
3. Implementing a cash pooling system will improve financial decision-making by providing greater visibility of available liquidity.
4. The existence of a clear and appropriate legal framework will facilitate the more effective implementation of a cash pooling system within a company.

5. The implementation of a cash pooling system may lead to operational challenges related to coordination and communication between group entities.
6. The financial benefits of cash pooling may vary depending on the business sector and group structure.

2. Concepts and theory :

2.1 What is cash pooling?
The main objective of this method is to reduce bank charges by balancing cash surpluses and requirements, i.e., to easily balance the various accounts while maintaining an overall view of the group's cash position. This entire operation is carried out with the support of a holding company (Bragg, S. 2012).
Cash pooling involves combining the funds and bank accounts of the various subsidiaries into a single cash pool. Cash pooling can be integrated into the group's cash management system by making account-to-account transfers (physical cash pooling) (the frequency and amount of fund transfers is entirely optional), or by calculating bank charges by centralizing the balances of the companies' accounts, which will enable the operation to be carried out directly by the bank, known as "merging interest scales" or "notional cash pooling". Cash pooling therefore makes it possible to solve a number of problems, mainly:

2.2.Technical aspects of cash management using cash pooling:
Cash pooling consists in centralizing the accounts of a group of companies within a single company, the centralizer.
There are two ways of centralizing group cash: physical cash pooling and notional cash pooling.

Physical cash pooling:
This method involves the actual transfer of funds from one bank account to another, which affects the bank balance of both parties involved in the transaction. Funds are transferred via transfers between accounts, and there are no restrictions on the frequency or extent of transfers. However, the parties making the transfers must be named in the cash pooling agreement (Polák, P., & Klusáček, I. 2010).

There are several physical cash pooling methods:
Zero Balancing Account: involves making periodic transfers in such a way as to bring the accounts of subsidiaries to zero.
Let's take the example of a multinational company with several subsidiaries in different countries. Each subsidiary has its own local bank account with a cash balance that varies according to its business operations.
By using the ZBA for cash pooling, the company can consolidate the balances of all its subsidiaries' local bank accounts into a single, centralized account. Positive balances are transferred to the centralized account, while negative balances are replenished with funds from the centralized account.

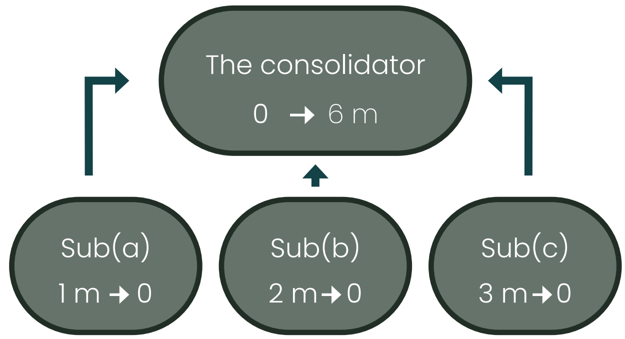

Figure 01: The ZBA method

Target Balancing Account: in this method, you define a footer or target amount above which cash is transferred to the centralizing account. If the balance is lower, no transfer is made.

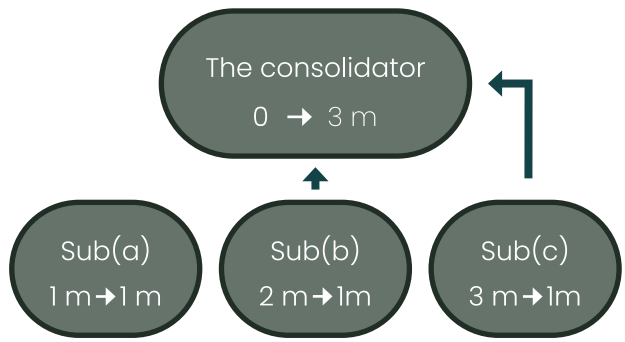

Figure 02: The TBA method

Using the same example as for the first method, if the target amount is 1 million, and the subsidiary's cash balance is 2 million, the subsidiary will transfer the surplus of 1 million.

Fork Balanced Account: This involves keeping the cash balances of group companies within a defined range If the range is between 1.5 million and 2.5 million, subsidiary A will receive 0.5 million from the centralizing company, subsidiary B will make no transfer, and subsidiary C will make a 0.5 million transfer. The centralizing company will then have acted as a pivot between subsidiary C and subsidiary A..

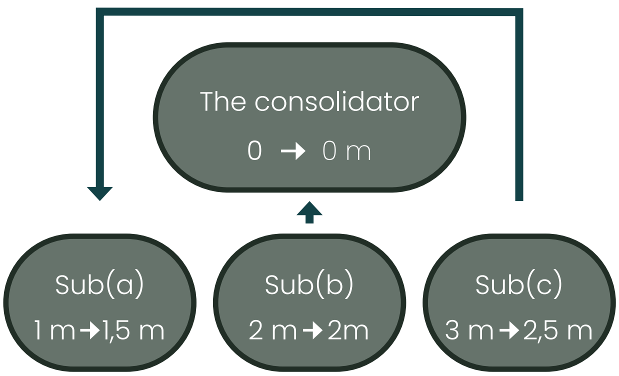

Figure 03: The FBA method

Notional cash pooling: Notional cash pooling is a cash management technique used by companies to optimize their cash flow. It involves virtually combining the bank account balances of different subsidiaries or entities within the same company, without any actual fund's transfers being made.

The aim of notional cash pooling is to enable a company to centralize and manage its liquidity more efficiently by using balance netting techniques rather than physical funds transfers, thereby reducing the costs associated with foreign exchange operations and bank transfers.

Unlike physical cash pooling, where funds are actually transferred between the bank accounts of different subsidiaries, notional cash pooling requires no actual transfer of funds, but instead uses accounting entries to adjust the balances of different bank accounts (Polák, P., & Klusáček, I. 2010).

3. Methodology

This chapter presents the methodology followed in conducting the research on cash pooling, employing an hypothetico-deductive approach. The study was based on data obtained through an internship at Djezzy, a telecommunications company, as well as data from its mother-company VEON.

3.1 Data Collection

The initial step of the research involved collecting relevant data on cash pooling. This was accomplished through an internship conducted at Djezzy, an established company with proven experience in financial management. The internship provided an immersive experience, granting valuable insights into the company's cash pooling practices. In addition, data was also obtained from VEON, an international telecommunications company. VEON generously shared information on their cash pooling mechanisms, enhancing the study by providing a broader perspective on the subject matter.

3.2 Formulation of Hypotheses

Once the data was collected, an in-depth analysis was carried out on the cash pooling practices observed at Djezzy, as well as the data provided by VEON. This analysis served as the foundation for formulating initial hypotheses regarding the potential benefits, risks, and impacts of cash pooling.

3.3 Test & Validation

To test and validate the formulated hypotheses, appropriate tests were developed based on established models and research methods in the field of cash pooling. These tests were designed to evaluate financial performance, cash flows, cost savings, and other key indicators related to cash pooling.

These tests were then applied to the collected data from both Djezzy and VEON. The results obtained were subjected to thorough analysis to evaluate the validity of the initial hypotheses. Statistical analyses and relevant modeling techniques were employed to ensure the robustness of the conclusions.

3.4 Interpretation of Results

The results obtained from the tests were interpreted and analyzed to derive meaningful conclusions regarding the effectiveness and implications of cash pooling. The identified benefits, potential risks, financial impacts, and practical recommendations resulting from the analysis were presented in a clear and concise manner.

4. Results

4.1. The parent company's viewpoint

After consolidation of the accounts of each company owned by the parent company, reporting must be carried out in accordance with the rules imposed by the parent company, such as providing the required financial information, such as financial statements, cash flows and key performance indicators, to the parent company, which is responsible for consolidating the information.

The parent company may also have specific requirements for the financial reporting of subsidiaries, such as the use of certain reporting formats or the inclusion of certain financial information. It is important that subsidiaries comply with these requirements to facilitate the consolidation process.

After full feedback, financial managers translate all sector data to summarize the company's current health.

Analysis of these two measures is important, as they can help assess the company's ability to finance its development activities. If gross development debt is rising rapidly without a corresponding increase in development cash flow, this may indicate that the company is having difficulty generating sufficient cash to finance its development activities, which may lead to an increased risk of default on its debt. On the other hand, if development cash flow rises faster than gross development debt, this may indicate that the company has surplus cash which can be used to finance more development activities, or to repay its debt more quickly.

4.2. Changes in VIP group debt and equity

The figure "VIP Group debt and capital movements" shows the movement of debt, capital and dividends between the VIP Group's head office and its subsidiaries in various countries.

At the center of the figure is the VIP Group's head office, which serves as the hub for debt and capital movements. Surrounding the head office are the names of the various countries where the VIP group has subsidiaries.

The red incoming and outgoing arrows represent debt movements, indicating the flow of funds from subsidiaries to head office or from head office to subsidiaries. The black arrows represent capital movements, indicating the movement of funds between subsidiaries and head office for investment or other purposes. In addition, the figure also includes green arrows, representing dividend payments from subsidiaries to head office.

The In-house bank (IHB) is shown in the figure as a separate entity located near VIP Group headquarters, with arrows linking it to the various subsidiaries in the different countries. The IHB plays a critical role in managing the movement of funds between subsidiaries and head office, and in optimizing the use of available liquidity

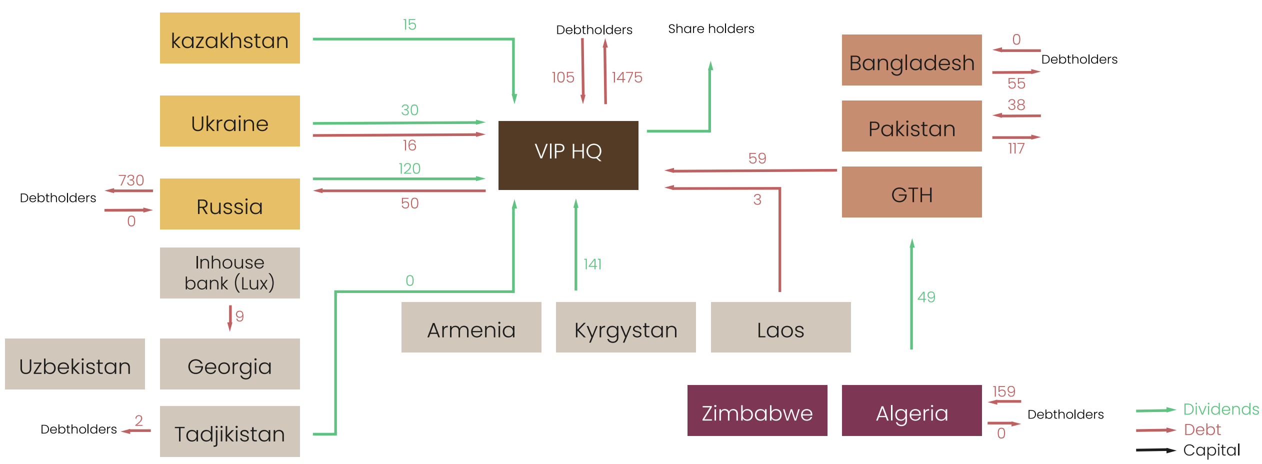

Figure 04: VIP Group debt and equity movements

5. Conclusion

The design and implementation of a cash pooling system by a company aims to achieve several strategic and financial objectives. First and foremost, cash pooling makes it possible to centralize the cash of group entities, providing an overview of available liquidity and facilitating more efficient, coordinated financial management. This enables the company to better optimize the use of financial resources by reducing external financing costs, maximizing returns on cash surpluses, and balancing the financing needs of the various entities.

The impact of implementing a cash pooling system on decision-making is significant. Firstly, by having a global view of the Group's cash flows and liquidity, decision-makers can make more informed decisions in terms of investment, financing and risk management. Greater visibility of available liquidity enables investment opportunities to be better assessed and seized at the right time. In addition, cash pooling facilitates financial risk management, as surplus cash can be used to offset the financing needs of entities with insufficient liquidity.

Cash pooling also contributes to faster, more flexible decision-making. By consolidating cash flows, decision-makers have real-time information on available liquidity and can react quickly to financial opportunities or challenges. Coordinated liquidity management also makes it possible to anticipate future financing requirements and plan decisions more strategically.

However, it must be recognized that setting up a cash pooling system also has its limitations and potential risks. Decision-makers need to consider the regulatory constraints, operational risks and counterparty risks associated with centralizing cash flows. In addition, the specific legal context may influence the implementation of cash pooling and require adaptations or special solutions to comply with it.

In conclusion, the design and implementation of a cash pooling system by a company aims to optimize the management of liquidity and financial resources, promoting informed, faster and more flexible decision-making. The impact on decision-making is reflected in better allocation of financial resources, reduced financing costs, improved risk management and more effective strategic planning. However, it is essential to take into account potential risks and limitations, as well as specific regulatory constraints, to ensure a successful and beneficial implementation of the cash pooling system.

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