International Cash Management Practices in a Russian Multinational

by *Mathew Tsamenyi,* University of Sheffield, 9 Mappin Steet, Sheffield, S1 4DT, UK and *Darina Skliarova,* ADAS International Limited, Woodthorne, Wergs Road, Wolverhampton, WV6 8TQ, UK

Key Words Financial Management; International Cash Management; Multinational Companies; Russia.

Abstract

The paper reports on the results of an exploratory case study on international cash management practices in a Russian Multinational Company (RMC). The paper is motivated by the lack of empirical evidence on financial management practices outside the Western World (especially from Russia and from other Commonwealth of Independent States). Data for the analysis are gathered from documents and in-depth interviews with finance managers in the company. The findings of the paper suggest that the company implemented an international cash management system reminiscent of international cash management discussed in the Western literature. For example, techniques such as netting, leading and lagging, re-invoicing center and cash flow planning are used in the company. Thus, our conclusion is that financial management techniques are likely to be the same in Russia as in the Western world. However, differences are likely to be found in the ways in which these techniques are implemented and used in practice due to differences in environmental conditions. For example, the company did not use any of the sophisticated cash management models discussed in the literature. Our research has implications for understanding financial management practices outside the Western World, especially in Russia.

1. Introduction

The growth in transactions across national borders has led to increased interest in understanding financial management practices of the global firm (Ball, 1995; Cowan, 2000; Eiteman, et al, 2001). One financial management issue, which has attracted the attention of researchers over the past few decades, is international cash management (Collins and Sekely, 1983; Holland et al 1994; Gibson, 1996; Ricci and Morrison, 1996; Cowan, 2000, Rigler, 2000; Eije and Westerman, 2002). International cash management, similar to other international financial management practices, is made complicated by the socio-economic and cultural differences between nations (Choi et al. 1999; Gray, et al 2001).

Thus, differences in financial norms and practices across nations, the need to cope with the home and host country regulations and the problems of working with a multitude of currencies have exacerbated the problems associated with managing cash and other resources internationally (Cowan, 2000; Rigler, 2000). While an increasing number of articles are being published dealing with the subject of international cash management (Ricci and de Vito 2000; Ricci and Morrison, 1996) limited information is available on the actual practices currently used by companies outside the Western World, especially outside the USA.

The problem is more acute in countries such as Russia and other former Communist countries where little evidence is available on the topic (Zucker, 2000). The objective of this paper is to contribute to the literature on international cash management by providing empirical evidence on how a Russian multinational company manages cash from its international operations. The remainder of the paper is organized as follows. The next section presents the research approach. Following this, brief background information about the company is provided. The international cash management practices of the company are then discussed in the next section. The final part provides a conclusion.

2. Research Approach

The analysis presented in the paper is based on a case study of a Russian Multinational company. Ten companies were contacted initially in November 2000, of which only three agreed to participate in the research. After a discussion with the three companies, the sample was reduced to one, as the other two companies would only allow partial access. Focusing on one company however allows for in-depth analysis of the research issue. For the purpose of confidentiality the company is hypothetically referred to as Russian Multinational Company (RMC)[1].

The actual research was undertaken between January and March 2001. Data for the analysis are collected from two main sources. First, documentary evidence is collected on government policies, company history, company policies, organizational charts and the financial performance of the company. This is followed by in-depth interviews with finance managers at the company's head office in Moscow. In all, twelve finance managers were interviewed. The twelve finance managers include two senior executives, six middle level managers and four junior managers. The average age of the interviewees was 42 years. Questions asked focus on the general operations of the company, rationales for setting up the international cash management system, the implementation of the cash management system, benefits of the cash management system and the determinants of the cash management system. A copy of the research report was sent to the company to confirm the authenticity of the analysis.

3. Company Background

RMC is one of the largest oil and gas companies in Russia and was initially approached for the study because of its substantial international involvement. The company, which is listed on the Russian Stock Exchange, produces about 7% of the country's GDP and contributes about 20% of the federal tax budget. One senior executive noted the financial importance of RMC to the federal government during the interview as: *"The Company is one of the largest tax payers in Russia. Over the past few years we have managed to pay over 11 billion roubles in taxes to the government"*. RMC was originally a state-owned company but was privatized in the early 1990s. Privatization is an important stage in the history of the country's petroleum and energy sector. Since 1992 there have been many changes in the Russian petroleum industry. The Ministry of Oil and Gas was restructured into the Ministry of Fuel and Energy and Rosneft. Together with the State Property Committee, Rosneft oversaw the privatization of the industry and the formation of holding companies. LUKoil, Surgut, Yukos, Sidanco, Slavneft, Komitek, Eastern Oil, Onako, Sibneft, and Tyumen Oil Company were the principal integrated oil companies created. Several of these integrated companies have expanded their operations beyond Russia and are operating in republics of the former Soviet Union and elsewhere (Friedlich, 1997).

Table 1 below shows the current ownership structure of the company.

Table 1: Shareholdings in RMC as at December 2000	
Shareholders	Percentage shareholding
Russian Government	38%
Russian Companies	34%
Russian citizens	18%
Foreign investors	10%

The major shareholder of RMC is the government, which owns 38% of the shares, controls the appointments of key executives and has veto power over major company decisions. Russian companies (mainly financial institutions) own 34% of the shares; current and former employees of the company own 18% of the shares[2]; and foreign investors own the remaining 10%. One of the senior executives interviewed commented on the significance of the involvement of foreign investors in the company's operations as: *"The role of foreign investors in the company is very important, as they provide us with the much needed finance to expand our operations"*.

The privatization resulted in the integration of RMC's operations with that of 40 other state-owned companies. RMC became the parent company with several subsidiaries both in Russia and in other countries such as Ukraine, Byelorussia, Kazakhstan, Latvia, Germany, Hungary, Finland, Moldova, Poland, Bulgaria, Greece, Lithuania, Turkey, Italy, the Netherlands and the UK. The subsidiaries in Western Europe focus mainly on the manufacture of the company's production equipment, providing training and technical assistance and distributing the group's oil and gas products abroad. The subsidiaries in Russia and in other Eastern European countries concentrate on drilling and distribution of the oil and gas. The RMC group thus controls the entire cycle of operations from production of its own equipment, geological prospecting and drilling to consumer deliveries. A substantial amount of inter-company activity occurs between the head office and the subsidiaries and also among the subsidiaries. For example, the head office provides funding to the subsidiaries in terms of equity and loans while the subsidiaries make repayment of loans and dividend remittances to the head office. Subsidiaries in Eastern Europe sell their products to subsidiaries in Western Europe while the subsidiaries in Western Europe provide training and technical services as well as supplying production equipment to the subsidiaries in Eastern Europe. Over 60% of the group's activities therefore involve international transactions. Transfer pricing policies for inter-company trade are determined by the head office.

The group employs about 300,000 people in both Russia and overseas. The company's corporate philosophy is based on concern for its employees. The company notes in its corporate bulletin that: *"One of our main goals is to guarantee employees stable jobs, suitable wages and social protection and ultimately give them confidence in the future"*. In addition to employee welfare, the company also identified profitability as an objective. It aims to achieve this through the development of its export activities and the economic and technological co-operation with foreign partners.

RMC's financial results for 1999 and 2000 are summarized in table 2 below[3].

Table 2 RMC's financial results for the years 2000 and 1999 (millions of rouble)		
	2000	***1999***
INCOME STATEMENT		
Revenues	539,909	400,210
Operating Expenses	(408,858)	(372,211)
Operating income	131,051	27,999
Other income / (expenses)		
Interest received and other income	27,137	12,379
Interest paid and other expense	(42,320)	(36,412)
Other non-operating expense, net	(2,582)	(42,373)
Minority interest	(1,516)	(220)
Currency translation (loss) gain	40,892	61,558
Total other income (expenses)	21,611	(5,068)
Income before provision for income taxes	152,662	22,931
Provision for income taxes	133,484	(118,170)
Net profit (loss)	286,146	(95,239)
Earnings (loss) per common share (roubles)	13.70	(4.51)
BALANCE SHEET		
Assets		
Current assets:		
Cash and equivalents	14,503	15,440
Short-term investments	14,976	7,627
Accounts receivable	265,298	264,088
Inventories	59,195	51,722
Other current assets	37,452	31,299
Total current assets	391,424	370,176
Investments	71,926	69,003
Properties and construction in progress	1,281,301	1,275,057
Other non-current assets	135,447	58,939
Total non-current assets	1,488,674	1,402,999
Total assets	1,880,098	1,773,175
Liabilities and Shareholders' Capital		
Current liabilities:		
Short-term loans	169,465	127,284
Accounts payable and accrued liabilities	85,213	75,777
Income and other taxes	114,483	161,602
Current portion of long term debt	8,712	6,762
Total current liabilities	377,873	371,425
Non-current liabilities:		
Site restoration costs	24,936	37,358
Long-term debt	211,052	280,387
Long-term taxes payable	8,853	104,657
Total non-current liabilities	244,841	422,402

Total liabilities	622,714	793,827
Minority interest	8,715	7,422
Shareholders' capital:		
Common stock	237,740	237,740
Treasury Stock	(9,661)	(6,369)
Retained earnings and Reserves	1,020,590	740,555
Total shareholders' capital	1,248,669	971,926
Total liabilities and shareholders' capital	1,880,098	1,773,175

An analysis of RMC's 1999 and 2000 annual financial reports shows that the company's financial performance improved in 2000 over 1999. For example, turnover and operating profit increased by 35% and 368% respectively in 2000. The company also made a net profit in 2000 compared with a net loss in 1999. This resulted in positive earnings per share in 2000 compared with negative earnings per share in 1999. One senior executive interviewed commented on RMC's strong financial performance in 2000: *"The company's good financial performance will ensure that it will gain the confidence of Russian and foreign creditors and investors. This will enable it to use attracted funds for development on a large scale".*

Management noted that it has managed to attract large inflows of credits for large-scale investment projects since privatization. The company has also managed to reduce its liabilities to the federal government in taxes, dividends and royalty payments. Since privatization, RMC has made significant improvements to its financial reporting system. For instance, from April 1999 financial reports are prepared on a monthly basis, with these reports consolidated at the end of the year. Another significant change made is the introduction of a unified planning and control system. Thus, budgetary controls and capital investment decisions are centralized at the head office in Russia with some limited autonomy to the subsidiaries.

4. The International Cash Management System

Cash management practices in Western companies have been documented in the literature. For example, Holland et al (1994) investigated cash management practices in Motorola and found that the company had meshed part of its organization and information systems with that of Citibank to strengthen Motorola's cash management system. Also, Cowan (2000) observes that both the US and European companies are now using Shared Service Centers (SSC) to rationalize their cash management functions. The author provided General Electric and Siemens as some of the Western companies that have adopted the SSC to facilitate the management of cash. Dimitriadis (2000) presented the case of AstraZeneca to illustrate how the cash management netting system has been enhanced through information technology. In this section, we present the cash management system adopted by the Russian Multinational Company.

Rationale for setting up the cash management system: RMC's operating and financial environments have been very turbulent since the beginning of the 1990s. One middle level manager interviewed comments that: *"First, the company went through a privatisation process followed by the deregulation of the oil and gas industry. These periods have been very difficult for the company"*. The deregulation and privatisation were the consequences of the Russian government's economic liberalization policies supported by the World

Bank and the International Monetary Fund. This period also witnessed the volatility of the Russian currency (the rouble) and the currencies of the other CIS countries in which the company has operations. The Asian and Russian financial crises in the late 1990s also exacerbated the problem. The management of RMC was in a predicament, especially as the Russian government's majority shareholding means that politicians control major strategic decisions while at the same time the company is exposed to the harsh realities of market competition and currency fluctuations with little or no government protection.

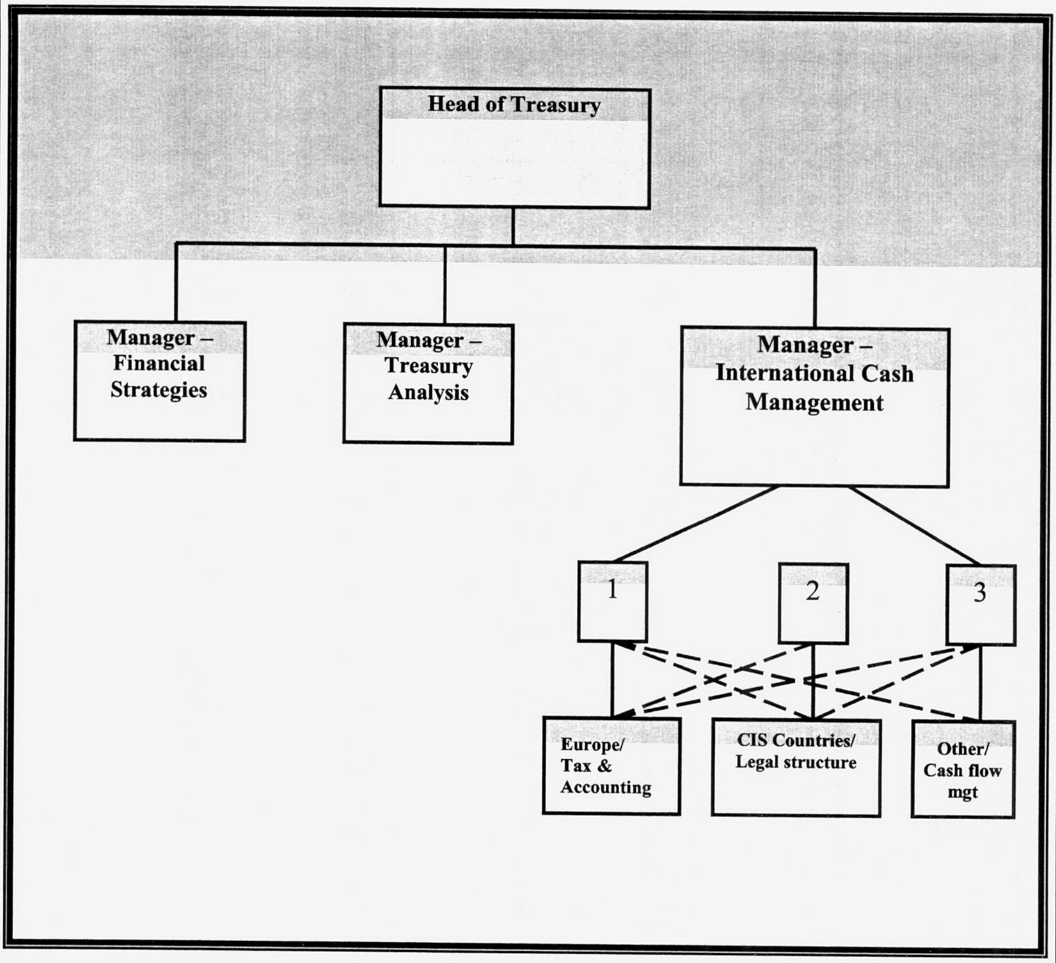
A senior finance executive interviewed notes that: *"The pressure on the management of the company means we have to come out with strategies to survive".* Management realized at the time that planning and control was extremely difficult due to unstable cash flows, as substantial amounts of revenues were generated from overseas. One decision taken in early 1998 was to stabilize cash flows, with the establishment of an international cash management system. A middle level manager interviewed identified the objectives of the cash management policy as: *"We set up the cash management system to provide stable cash flows and short-term credit necessary to support the company's operations. We also wanted to minimize our short-term debts since we had a lot of short-term debts at the time".* No feasibility study was undertaken prior to the establishment of the international cash management system. The head of treasury initially considered using foreign consultants to assist in establishing the international cash management system. However, top management rejected this on the grounds that financially the foreign consultants would be too expensive for the company. Second, it was decided that the company had enough expertise internally to establish the system.

Organization of the international cash management function: The International Cash Management Department (ICMD) operates directly under the Treasury Division. The Treasury division has two other operating departments – Financial Strategies and Treasury Analysis. A partial organizational structure of the Treasury Division is presented in Figure 1 below.

The manager of the ICMD reports directly to the Head of Treasury who in turns reports to the Vice President, Finance (VPF). The VPF's responsibility in terms of international cash management is solely for issuing guidelines. One middle-level manager interviewed notes that: "*Operating decisions relating to cash management are undertaken by the manager and staff of the ICMD under the supervision of the head of the treasury division. However, final responsibility for these decisions lies solely with the Vice President, Finance. He has the final authority and power over all finance related decisions (including international cash management)".*

Three analysts who have dual sets of responsibilities support the manager of the International Cash Management Department. Each of the analysts has general responsibility for a geographic region. The firm has divided its overseas operations into three regions for the purposes of international cash management related responsibilities: Europe, CIS (Commonwealth of Independent States) Countries and a group comprising Eastern Europe and Turkey. However, in addition to maintaining general control of the assigned region's operations, each analyst also has worldwide responsibility for a functional area as shown in Figure 1(below). Functional responsibilities are divided into three groups: tax planning and accounting, legal structure, and cash flow planning. Cash flow planning also includes hedging, short-term borrowing and investment analysis.

Figure 1: Organizational Structure of the Treasury Division



Note: The Dotted Lines between Areas and Analysts indicate functional responsibility and the Firm Lines indicates geographic responsibility

Formal International Cash Management Policy: It was observed during the interview that even though in theory the Vice President for Finance has the formal responsibilities for issuing guidelines on international cash management, no such guidelines exist in the company. Instead decisions relating to international cash management are made on an ad hoc basis. Thus the company has no detailed corporate policy that clearly specifies procedures that managers responsible for cash management have to follow. The head of ICMD, together with his staff, decides on an ad hoc basis about whether to protect currency exposures or not. The head of the Treasury Division also in practice has limited influence on the activities of the ICMD. A senior official of the company cited the advantages of this informal policy as reduction in bureaucracy and the ability to make prompt decisions to minimize transaction and translation losses. He notes that: *"The informal policies are necessary because of the frequent changes in the legislation, economic and political situation in Russia in recent years. This decision allows the managers involved in international cash management to respond to events quickly".*

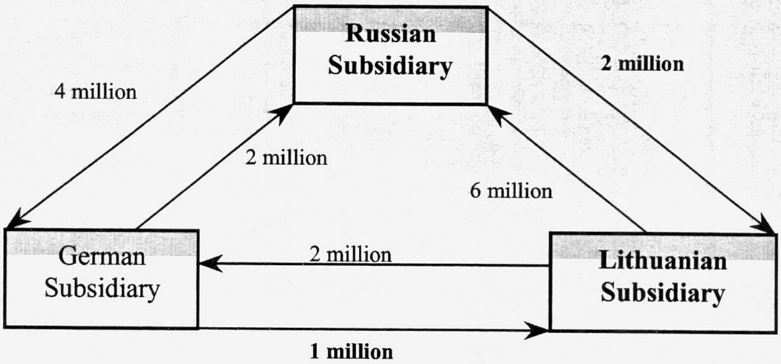
Centralization of Cash Management Decisions: Although RMC has several foreign affiliates, the company centralizes the majority of its cash management operations at the head office in Moscow with limited autonomy to some subsidiaries. A senior official noted during the interview that: *"Cash management decisions are considered very important to the company; hence the need for significant centralization as most of the company's experienced and qualified finance staff works in the head office".* Management however has a different attitude towards the different geographic areas when it comes to cash management decisions. The European units are the most autonomous in terms of decision-making in general. Cash managers in these units individually determine their cash management strategies. Frequently, these subsidiaries have temporary cash surpluses that they use to buy the parent's commercial paper, invest locally in short-term money market instruments, or pay off an intra-company loan.

Head Office intervention occurs sometimes but on a limited basis. One junior manager gave an instance during the interview where Head Office intervention was necessary: *"An European subsidiary wants to pay off an intra-company loan to another subsidiary but the head of the International Cash Management Department feels this decision would create currency exposure and has therefore objected to such payments. The payment was stopped in the interest of overall company strategy".* The CIS subsidiaries are the most closely monitored, primarily because of the volatile nature of these economies and the potential for substantial fluctuations in currency values.

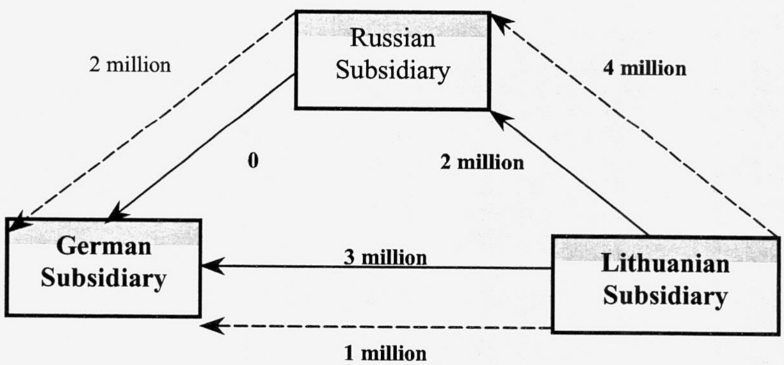
Managing cash through re-invoicing center: The substantial volume of inter-subsidiary fund flows has led RMC to establish a re-invoicing center within the International Cash Management Department. The center manages transaction exposures in over 15 currencies. All cross-border sale transactions are fed into an on-line information system that provides corporate management with the firm's exposures by currency. The center also nets inter-subsidiary fund flows and takes advantage of leading and lagging, where permitted. The re-invoicing center is also responsible for hedging operations. Hedging is done for the net transaction exposure on a selective basis based on the experienced judgment of the International Cash Management staff at the head office, who rely on a daily information reporting service whereby the company's bankers provide indicative spot and forward rates for all major currencies of interest. Based on this information, the head of the ICMD issues instructions to the re-invoicing center specifying which currencies the firm considers strong and which ones it considers weak. Further, dividend repatriation and other noncommercial fund flows to the parent are monitored carefully and the exchange exposure is again hedged on a selective basis. Control is maintained through a rolling 6-month forecast where each participating subsidiary provides an updated 6-month monthly forecast of expected fund flows. Additional internal hedging techniques are used, including local borrowing and dollar-denominated investments.

Managing cash through Netting: RMC operates a netting system coordinated by the company's re-invoicing center. The netting scheme works on a monthly cycle with all the participating subsidiaries sending information to the re-invoicing center on payables and

Figure 2. ***Illustration of RMC's foreign exchange netting system.***



(a) Receivables and payables reported to re-invoicing centre before the 1st of the month.



(b) Net payables/receivables (broken lines) and actual cash flows (solid lines) made on the 10th of the month.

receivables existing at that time in local currencies by the 1st day of each month. The re-invoicing center converts all amounts into US dollar terms at the current spot exchange rate and sends information to those subsidiaries with net payables on how much they owe and to whom. The paying subsidiaries are responsible for informing the net receiver of funds and for obtaining and delivering the foreign exchange. Settlement is on the 10th of the month or the nearest business day, and the funds are purchased 2 days in advance so that they are received on the designated day. Any difference between the exchange rate used by the re-invoicing center on the 1st and the rate prevailing for settlement on the 10th gives rise to foreign exchange gains or losses. An illustration of the company's netting system provided by the ICMD during the interview is shown in figure 2 above.

In the above illustration all transactions are in US dollars. Information on receivables and payables is provided for the re-invoicing centre on or before the 1st of the month. The re-invoicing centre converts the amounts of foreign exchange into US dollars at the going exchange rate and the net amounts owed between subsidiaries (as shown by the broken lines in part *b*). Rather than having the Lithuanian subsidiary pay the Russian subsidiary the equivalent of US$4 million while the Russian subsidiary in turn pays the German subsidiary US$2 million, the Lithuanian subsidiary will be instructed to add $2 million onto what it pays the German subsidiary and to reduce what it pays the Russian subsidiary by this amount. The Russian and German subsidiaries will receive no instructions to pay anybody. The total number of transactions will be reduced from six to only two. Transaction costs will be faced on only $5 million worth of transactions.

The managers believe the company's cash management system has mechanisms to adapt to unforeseen circumstances. Examples of such safety mechanisms are the system's ability to change data up to the final settlement day, developing a preliminary netting schedule and then a final netting schedule. The original netting system was for intra-company use and did not include outside firms. RMC also recently introduced a scheme for foreign exchange settlements for payments to outsiders. Foreign exchange is purchased and transferred from the re-invoicing center to the relevant parties on either the 10th or the 25th of each month. However, should any of these days fall on a weekend or a public holiday, then the nearest business day is used. The payment needs are telexed to the re-invoicing center from the subsidiary more than two days before the settlement date, allowing the re-invoicing center to net the amounts of each currency. The subsidiary, which owes the foreign exchange, settles with the re-invoicing center by the appropriate settlement date. According to the company, netting can cut the total number of transactions with outsiders by more than 40%, saving the company transaction costs.

Managing cash through leading and lagging: Dividend payments are used to move funds from subsidiaries to the head office. The company uses an approach which is similar to leading and lagging for dividends and fee remittances. Thus, depending on the direction in which exchange rates are expected to move, management either demands dividends and fees to be remitted earlier than schedule or delayed until such an appropriate time that management thinks it is financially viable for such transfers to take place.

Subsidiaries are also allowed to use leading and lagging to settle inter-subsidiary transactions. For instance, a subsidiary that is a net payer is allowed to delay or lag payment for up to two months while compensating the net receiver at prevailing interest rates. Net receivers of funds may, at their discretion, make funds available to other subsidiaries at interest. In this way the need to resort to outside borrowing is reduced. The netting with leading and lagging has allowed the company to eliminate intra-company floats and reduce by over 60 percent the amount that would otherwise have been transferred.

Cash flow forecasting: Cash flow forecasting is done through monthly cash budgets. The cash budgets are usually prepared for a period of six months. Some managers believe that a period of more than six months would be unrealistic due to the volatilities of most of the currencies involved. One senior executive notes that: "*Management considers forecasting cash flows as a major problem due mainly to the instabilities in the rouble and the currencies of most of the other countries in which the company operates*". The main sources of information used in forecasting cash flows are financial publications, interest rate differentials and inflation rates. Some of the managers interviewed, however, questioned the accuracies of some of the data used in the forecasting. One junior manager notes that: *"Due to problems with reliability, the company sometimes has to modify information obtained from external sources in forecasting its cash flows. It is difficult to rely absolutely on these figures"*. It was also observed during the interview that cash flow forecasting has improved over the last two years. Most of the managers interviewed note that over the last two years it has been possible to accurately forecast about 50% of the company's incoming cash flows in the short-term (for periods of less than a month) compared with about 20% forecast rate in the past.

Factors Influencing RMC's International Cash Management Practices: The main determinants of RMC's international cash management practices are weak rouble, nonconvertible rouble, low-level of liquidity on securities markets, inefficient financial system, high levels of inflation, market de-regulation, under-developed financial systems in other CIS countries, and financial crises. For example, macroeconomic dis-equilibrium caused by the result of contradictory policies adopted by different central authorities has made the control of inflation elusive. The Russian economic reform program, which led to the removal of most price controls, also exacerbated the inflationary problems.

Foreign exchange restrictions have included a complex system of multiple exchange rates, import and export licenses, quota regulations, and differentiated retention quotas. The non-convertibility of the rouble is one of the biggest hurdles facing foreign investors. The rouble may not be imported or exported; therefore, foreign companies are constrained in the sale of their goods to other Russian organizations for hard currency where these goods are produced in Russia. Furthermore, the Central Bank requires a license for foreign currency capital movement and a separate license to trade in hard currency. These restrictions have posed obstacles for foreign investors seeking to produce and sell their products in Russia. From July 1, 1992, 50 percent of hard currency earnings of all Russian legal entities (including those with foreign investment and wholly owned legal entities) are subject to obligatory sale for roubles (Friedlich, 1997).

The Russian banking environment is also weak. Commercial banks have been permitted since 1988. Around 2,000 now exist, although only around 100 are able to meet Western banking standards. According to Aslund (1998) the banking environment in Russia is characterized by politicization where state banks dominate the credit market, lack of legal framework governing the creation of secure loans, and lack of publicly disseminated information about the financial background of enterprises which makes it difficult for banks to conduct a rigorous financial analysis, such as assessing the credit worthiness of customers.

The Central Bank of the Russian Federation is the principal authority responsible for exchange control in Russia, although the government does intervene. In the summer of 1995 a "rouble corridor" was introduced that effectively regulated the exchange rate of the nation's currency. The corridor was replaced in May 1996 by a crawling peg system, which was influenced by macroeconomic factors.

Dent (1994) argues that further reform measures required in the Russian banking sector include tighter supervision of a fast-growing number of unregulated private banks, assisting banks to diversify their own portfolios, improving the facilities to convert debt into equity and streamlining bankruptcy procedures.

A middle level manager interviewed, for instance, commented on the banking system in Russia as: *"Banks in Russia do not offer the same services as those in the USA, Japan, UK and the rest of Europe. In these countries, banks are very advanced in facilitating cash transfers for multinational corporations. Unfortunately this is not the case in Russia at the moment".* A second middle manager summed up the impact of the Russian financial crisis on RMC's operations as: *"During the Russian financial crisis in the late 1990s, several companies including some of our own subsidiaries could not repay debts owed to RMC. This forced the management of RMC to borrow heavily on the securities markets in Russia as well as outside the country. The effect is that after the crisis the cost of these borrowing has risen significantly and the company is still repaying these debts".*

One of the top executives interviewed summed up the problems associated with cash management in RMC specifically and in Russia in general as: *"Russian companies are not ready yet for proper international cash management as you see in the Western World. In fact I would say the weak banking sector is the major problem".*

5. Conclusion

This paper has presented the results of a case study on international cash management in a Russian multinational company (RMC). The paper is motivated by the lack of empirical evidence on financial management practices in Russia and in other CIS countries. Our objective is to investigate how different or similar international cash management practices in a Russian company are from those discussed in the Western literature. The results of the case study suggest that international cash management concepts such as re-invoicing center, leading and lagging and netting used in Western companies such as AstraZeneca (Dimatriadis, 2000), Fortune 200 companies in the USA (Ricci and Morrison, 1996), and Motorola (Holland, et al 1994) are also used in the Russian company. These concepts are well understood by the managers involved in the international cash management process. A recent study by Zucker (2000) found that the same cash management techniques used in the Western world are used in Russia and in other Eastern and Central European countries.

Differences are however likely to be found in the ways in which techniques are used in practice. Zuker (2000), for instance, argues that many legal restrictions hinder cross-border cash management practices within Central and Eastern Europe. In our case, we found that the uncertainty in the Russian economic environment affected the cash management practices of the studied company. Economic uncertainties such as the volatility and non-convertibility of the Russian Rouble make it difficult to prepare cash budgets to forecast cash flows. As a result, no corporate policy that clearly specifies objectives and procedures on international cash management exists in the company we studied. Instead, managers are sometimes left confused and have to make international cash management related decisions on an ad-hoc basis. Thus, no official guideline exists on when finance managers should hedge or not hedge cash flows and what techniques to use in hedging cash flows. While the advantage of this approach was identified earlier as reduction in bureaucracy, it has also been observed that this has often made difficult the task of finance managers involved in international cash management decisions. Another observation we made is the limited autonomy given to the subsidiaries in the CIS countries. Thus, while the international cash management function has been centralized at the head office, subsidiaries in Europe are given considerable autonomy to make cash management and other operating decisions, compared to subsidiaries in the CIS countries. Again we found there is no formal policy on this decision. Instead, the practice has become institutionalized and accepted as company policy. The rationale given for this decision is the volatility of the currencies of the CIS countries.

The findings of the study have several implications. First, the research is useful for the participating company (RMC) since the report of our analysis was made available to them. Management warmly accepted our recommendation for a formal international cash management policy. Second, the research has identified that a strong banking sector is needed for the effective implementation of international cash management policies. However, the review of the Russian economic environment earlier and the results of the interview show that the banking sector in Russia is at present weak. We hope our findings will assist policy makers in reforming the banking sector in Russia.

The research is useful for financial managers of other Russian multinational corporations and multinational corporations with affiliates in Russia, and for the general academic community. The review of the Russian literature shows that financial management has not received much attention. The few published materials on financial management in Russian are simply translations of Western books with Western examples. This research therefore adds to the existing literature in the subject area.

Though the sample is too small to allow for any meaningful statistical generalization, interesting conclusions can be drawn from the research. The results are therefore indicative of corporate practice, rather than being statistically generalized to all Russian MNCs.

Endnotes

1. Anonymity is a condition for the company granting full access for the study.

2. Russian's privatization law stipulates that part of the shares of the company is sold to the employees of the company hence the 18% shareholding by the employees of the company.

3. The exchange rate was US$1 = 27 Roubles at the end of 1999 and US1 = 28.16 Roubles at the end of 2000.

References

Aslund, A., Layard, R. (1998) *Changing the Economic System In Russia*. London: Pinter.

Ball, R. (1995), "Making Accounting International: Why, How, And How Far Will It Go"? *Journal of Applied Corporate Finance*, 8(3), pp. 19-29.

Balabanov, I., Balabanov, A. (2001) *Vneshne-Economicheskie Sviazi*. Moskva: Finansi I Statistika.

Bokos, W.J., Clinkard, A.P. (1983), "Multilateral Netting", *Journal of Cash Management,* June/July, pp. 23-34.

Choi, F. D. S. Frost, C. A. and Meek, G. K. (1999), *International Accounting*, Prentice Hall, New Jersey

Chmelyev, A. (1998), "Advice to Investors in Russia", *Financial Times*, 2.

Collins, J., Sekely, W. (1983), "The Relationship of Headquarters, Country, and Industry Classification to Financial Structure". *Financial Management*, autumn, pp. 45-51.

Cowan, J. (2000), "The Global Cash Challenge", *Treasury Management International*, Special Report pp. 1-2

Dent, C. (1994), "The Business Environment in Russia", *European Business Review*, 94(3), pp. 15-21.

Dimitriadis, D. (2000), "Creating the Virtual Treasury", *Treasury Management International,* Special Report, pp.4-6.

Eije, H. V. and Westerman, W. (2002), "Multinational cash management and conglomerate discounts in the euro zone", international Business Review, vol.11, pp453-464.

Eiteman, D., Stonehill, A., Moffett, M. (2001), *Multinational Business Finance*. 9th Ed. New York: Addison-Wesley Publishing Company.

Finnerty, J.P. (1981), "What To Expect From An International Cash Management Study", *Cash Flow*, October, pp.39-40.

Friedlich, M. (1997) *Doing Business in the Russian Federation*. Price Waterhouse: USA.

Gibson, H. (1996) *International Finance: Exchange Rates and Financial Flows in the International Financial Systems*. London: Longman.

Grachev, U. (2001) *Vneshneekonomicheskaia Deyatelnost*. Moskva: Zao Biznes-Shkola "Intel-Sintez".

Gray, S. J., Salter, S. B. and Radebaugh, L. H. (2001), *Global Accounting and Control: A Managerial Emphasis*, John Wiley and Sons.

Hamilton, R., Kashlak, R. (1999), "National Influences on Multinational Corporation Control System", *Management International Review*, (2), pp. 167-189.

Hanke, S., Jonung, L., Schuler, K. (1993) *Russian Currency and Finance*. London: Routledge.

Holland, C. P., Lockett, G., Richard, J. M. and Blackman, I. (1994), "The Evolution of a Global Cash Management System", *Sloan Management Review* 36 (1) pp.37-48.

Hughes, M., Helinska-Hughes, E. (1998), "FDI Attraction Policy in Central and Eastern Europe", *Conference Proceedings of the 25th Annual Conference of The Academy of International Business,* pp. 290-302.

Komarov, A. (2001) *Pravovoe Regulirovanie Vnesheekonomicheskoi Deyatelnosti*. Moskva: Deka.

Kostushina, G., Livincev, N. (2001) *Megdunarodnaia Praktika Regulirovaniya Inostrannih Investicii*. Moskva: Ankil.

Kryglov, V. (2000) *Osnovi Megdynarodnih Valutno-Finansovih I Kreditnih Otnoshenii*. Moskva: Infra-M.

Kuznetzov, A., Kuznetzova. O. (1996), "Russian Economic and Political Environment", *Europe-Asia Studies*, 48(7), pp. 1173-1185.

Kuznetzov, A., Kuznetzova. O. (1998), "Corporate Governance under Transition and the Role of the State: The Case of Russia", *Conference Proceedings of the 25th Annual Conference of The Academy Of International Business*, pp. 374-386.

Madura, J. (2000) *International Financial Management*. 6th Ed. New York: South- Western College Publishing.

Maier, S.F. (1983), "International Corporate Cash Management Problems", *Journal of Cash Management*, February/ March, pp.14-15.

Masson, D. (1990) Planning and Forecasting of Cash Flows for the Multinational Firm: International Cash Management. *Advances in Financial Planning and Forecasting,* 4(Part B), pp. 195-228.

Mcfaul, M. (1996) The Allocation Of Property Rights In Russia. *Communist and Post Communist Studies*, 29(3), pp. 287-308.

Ricci, C. and de Vito, N. (2000) "International Working Capital Practices in the UK", *European Financial Management* 6(1) pp.69-84.

Ricci, C. and Morrison, G (1996), "International Working Capital Practices of the Fortune 200", *Financial Practice and Education,* winter/fall pp.7-20.

Rigler, E. (2000), "Meeting the Global Payments Challenge", *Treasury Management International, Special Report,* pp.7-11.

RMC, Annual Reports, 1999, 2000.

RMC Corporate Bulletin, 2000.

Soenen, L. (1986), "International Cash Management: A Study of Practices of UK-Based Companies", *Journal of Business Research*, Aug, pp. 345-354.

Srinivasan, V., Kim, Y.H. (1986) Payments Netting In International Cash Management: A Network Optimization Approach. *Journal of International Studies*, 17(2), pp. 1-20.

Srinivasan, Venkat, Susan E. Moeller (1990), "International Cash Management: State-of-the-art and Research Directions", *Advances in Financial Planning and Forecasting*, 4(Part B), pp. 161-194.

Thornhill, J. (1996a), "Desperately Short Of Fuel: The Risk Of Operating In Russia Make Foreign Companies Reluctant To Provide Much Needed Investment", *Financial Times*, (24), P. 2.

Thornhill, J. (1996b), "Banker Refused Entry to Russia", *Financial Times*, (2), p. 5.

Thornhill, J. (1997), "The Bear Starts to Lose its Bugs", *Financial Times*, (4), p. 3.

Yin, R. K. (1994), *Case Study Research: Design and Methods*. London: Sage Publications.

Zucker, S (2000), "Cash management in Central and Eastern Europe", *Treasury Management International,* Special Report, pp.15-19.