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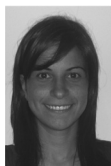
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Ethical Cash Management? A Possible Solution

**Ética en las Finanzas, Premio Robin Cosgrove
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La gestion de trésorerie a pour objet de veiller à ce que les entreprises disposent de la trésorerie dont elles ont besoin, au bon moment et à un coût minimal.

La gestion financière et, en particulier, la gestion de trésorerie comporte une composante éthique majeure.

The purpose of cash management is to ensure that companies have the cash they need at the right moment, and at minimum cost. To do this, companies use a range of measures and techniques relating to cash planning, decisions on short-term financing and investment, management of relations with financial bodies and management of financial risks. Other key aspects are monitoring and analysis of receivables and payments management, as well as corporate culture.

Decisions that affect the whole society

By its very nature, this business concept is a complex one, probably because it lies at the heart of corporate management, for its decisions directly or indirectly affect and are affected by (a) all other areas of the company, whether commercial, structural or social, and (b) other companies with which it has relations, and even society and the environment.

Such measures, and above all decisions on cash holdings, thus affect and are affected by groups of stakeholder, yet financial cash-management techniques are based on selfish assumptions and behaviour on the part of companies and their managers and are sustained by distrust of other players. This results in unilateral decisions based on personal goals, which can scarcely generate value for all those involved. In this connection it may be said that financial management, and specifically cash management, include a major ethical component, since unequal conditions, information asymmetry and opportunistic efforts to maximize short-term results may have an adverse financial impact on other economic players or other interest groups.

A twofold problem arises in connection with cash management. On the one hand, as already indicated, cash management affects not only the company's own decisions but also third parties, and ultimately the whole of society. Today's crisis has

En effet, des conditions inévitables, une asymétrie de l'information ou des tentatives opportunistes de maximisation des résultats à court terme peuvent avoir un impact financier négatif sur d'autres acteurs économiques ou d'autres groupes d'intérêts.

Parallèlement à cela, pour obtenir un impact optimal sur les intérêts à moyen et long termes des parties, les solutions à adopter doivent être fondées sur une confiance réciproque et donc sur l'éthique.

Jusqu'à aujourd'hui, les experts et les opérateurs financiers se sont concentrés sur les techniques et les instruments permettant d'optimiser les avoirs.

Mais pour être efficaces, les techniques employées devraient générer une situation financière optimale pour toutes les parties prenantes.

highlighted the link between companies and banks, since, although the crisis had its origins in a combination of greedy operations involving junk mortgages with a complex system of financial products in the banking sector, the resulting chain reaction has led to the most serious cash problems in history. The scale of this can be deduced from the fact that practically every company now describes its short-term financial position as 'tricky' or indeed disastrous, as witness the large increase in company failures around the world.

At the same time, in order to have an optimum impact on parties' medium- and long-term interests, solutions must be based on mutual trust, and hence on ethics. Yet the need for this ethical basis may come to be challenged by a general opinion - shared by academics and professionals - that this is merely a management problem. But even then it may be argued that there are ethical issues involved, since financial and cash-management strategies are based on 'selfish' approaches. For instance, one of the most important cash-management strategies, advocated in most books and texts on finance and accounting, involves paying suppliers later without damaging relations with them and requiring customers to pay sooner without substantially reducing sales (Gitman *et al.*, 1976). Yet this short-term financial strategy, which is based on companies' cash cycles, does not generate maximum overall value, but a maximum level of own value

that cannot be sustained in the long term; still less does it optimize companies' cash holdings.

Up to now, financial experts and operators have focused on studying and proposing techniques and instruments for 'optimizing' cash holdings; however, in order to achieve this, at least across the board, the unitary approach must first make way for a comprehensive one in which techniques used create an optimum financial situation for all the stakeholders or companies affected by financial operations.

Create value for all

To respond to this problem, we need a change in corporate financial culture, which in our view can only optimize overall cash holdings and generate value for all if financial strategies rest on one basic pillar, namely mutual trust. Situations of illiquidity, insolvency and bankruptcy in which companies find themselves must be analysed not only from the point of view of their own corporate management, but from a broader perspective that takes account of the (essentially adverse) impact on the entire group of stakeholders. Thus, and from the point of view of trust among interest groups, it may be considered that improved results - social as well as economic - can be achieved for all those involved if cash-holding techniques are based on the notion of mutual benefit and the common good.

Current cash-management and cash-holding techniques are being

Notre théorie doit être vue comme complémentaire aux techniques existantes et non pas comme une méthode substitutive. Elle vise à maximiser les intérêts des parties prenantes. Et pour cela, elle cherche à créer des modèles maximisant les positions de tous les groupes d'intérêts impliqués, actionnaires compris.

Cette approche repose sur le postulat que tous les groupes d'intérêts sont étroitement liés aux décisions financières à court terme et, par conséquent, aux flux de liquidités, car les uns exercent une influence sur les autres et vice-versa.

Il est préférable de détenir des disponibilités plutôt que d'avoir à faire appel à un financement extérieur, plus onéreux.

developed on the basis of financial theories - pecking order, trade-off or agency theory - that are consistent with the goal of maximizing shareholders' interests. They are not, therefore, specifically designed to create value for all stakeholders. Yet our theory may complement rather than conflict with existing cash-holding techniques, for it seeks to create models that maximize value for all the interest groups involved, including shareholders. From the point of view of cash management, this approach relies on the premise that all the interest groups (both internal and external) affect and are affected by short-term financial decisions and hence by liquidity flows.

Cash holdings: the right level

The main purpose of cash management is to ensure that companies have the cash they need at the right moment, the optimum level being the minimum necessary; moreover, studies so far have concluded that companies must maintain a positive cash level. In this sense it is preferable to hold cash than resort to external finance that costs more because of information asymmetry between companies and outside investors (Myers and Majluf, 1984), problems of agency costs such as underinvestment and asset substitution (Myers, 1977; Jensen and Meckling, 1976) and transaction costs and other financial constraints. Managers must therefore determine optimum cash levels by minimizing the cost of obtaining

external finance on imperfect capital markets. However, holding cash or its equivalent also raises potential problems. Agency conflicts between shareholders and managers may be reduced if the company has high free cash-flow levels (Jensen, 1986), for managers can put their own interests before those of shareholders. It should also be recognized that excessive conservatism has disadvantages of its own, such as the opportunity cost of holding assets that yield little or no return. Cash holdings create an opportunity cost for the company, for they produce a lower return than that yielded by the company's productive investments; at the same time, the company may incur transaction costs resulting from the purchase or sale of financial assets, and also suffer tax disadvantages.

Are corporate cash-management techniques ethical?

In general, cash transactions between a company and the operators around it should take place under conditions of equality; however, because of power and information asymmetry, agreements are reached under conditions of inequality which are justifiable in terms of contract theory but run counter to the interests of one of the parties. Cash management is based on contract theory (Coase, 1937), in which various parties reach free agreements, under the terms of the law, on the times at which debts arising from various economic transactions will be paid.

Mais détenir des liquidités entraîne un coût d'opportunité défavorable pour l'entreprise. En effet, la rentabilité est moindre par rapport à la rentabilité générée par les investissements productifs de l'entreprise, sans parler des inconvénients fiscaux.

Selon la théorie de la délégation (les différentes parties s'entendent dans le cadre d'accords libres selon les termes de la loi), il ne devrait pas y avoir de problème éthique.

Mais l'intérêt d'une gestion de trésorerie éthique ne se limite pas à une simple théorie d'égalité qui régirait les relations commerciales ou les intérêts des actionnaires.

Car une gestion de trésorerie « égoïste » peut être un facteur déterminant dans les faillites et leurs conséquences néfastes.

In theory there should be no ethical problem with this approach, as long as the assumptions of equality and perfect capital markets hold true; in practice, however, inequalities between the parties, such as power and information asymmetry and opportunistic behaviour, as well as market failures and opportunity costs, mean that the agreements reached may not be optimal for one - or indeed either - of the parties.

Nevertheless, interest in ethical cash management is not confined (although this would be sufficient) to a theory of equality in commercial relations or in stakeholders' interests. Thus, and given the role played by cash holdings in cases of insolvency, 'selfish' cash management - as an ethical approach would suggest - may be a key contributing factor to bankruptcy and its various adverse consequences (unpaid bills, dismissals, broken contracts and so on).

A more ethical approach

In Spain, for example, the current unsustainable short-term cash position has led to mass company closures, doubling the number of unemployed to four million. In the United States 2.6 million jobs were lost in 2008, a figure not seen since 1945. In Britain some 50 businesses close each day, and the situation is no better in Latin America, where unemployment is rocketing and increasingly unmanageable. Specifically, the ILO's Regional Office in Lima has reported that in 2009 the impact of the economic crisis will, for the first time

since 2003, raise the average annual unemployment rate to between 7.9% and 8.3%, which means that 2.5 million more people will be out of work. Liquidity problems are increasing in all countries, and this is one of the factors that are causing businesses to close in such alarming numbers.

The financial crisis and liquidity problems are connected, which is why the current crisis has highlighted and, disturbingly, helped tone down the worst predictions about opportunistic behaviour when it comes to cash-management strategy. However, and not only at times of recession and economic crisis, consideration may be given to a more ethical approach to cash holdings, one that is based on collaboration between the various players and may (at least in theory) produce the desired optimum level of cash - namely mutual cash management based on trust. Such an approach is justified not only in purely financial terms, for it makes cash management easier, but also in ethical terms, for it benefits all those involved and ultimately contributes to the 'common good'.

Financially, collaboration between players would lead to debts being paid at mutually agreed times and would reduce financial risks and transaction costs, allowing players to optimize their economic and financial results; and, socially, it would cushion the adverse impact of monetary imbalances, such as unpaid wages, late payment of suppliers, loss of customers and - ultimately - insolvency.

Il faut réfléchir à une approche plus éthique, organisée autour d'une collaboration entre les différents acteurs et susceptible de produire le niveau optimal recherché de disponibilités ; c'est-à-dire à une gestion mutuelle des disponibilités fondée sur la confiance.

Sur le plan financier, cette collaboration entre acteurs entraînerait le paiement des dettes à des moments mutuellement convenus et réduirait les risques financiers et les coûts des transactions. Sur le plan social, cela amortirait l'incidence négative des déséquilibres monétaires.

Les relations entre les acteurs économiques et les groupes détenant un intérêt dans l'entreprise doivent être analysées et gérées avec soin.

Relationships between economic players and groups with an interest in the company must be analysed and managed carefully. The financial relationship between a company and the players that interact with it will depend on the nature of the various interest groups; thus the company will have different relationships with its suppliers, its customers, the government, the banks, its employees, its shareholders and the community as a whole.

Mutual cash management based on trust

One strategy would be to identify the company's cash operations and then which players are involved, in order to examine their repercussions and so make multilateral decisions that benefit all concerned. Strategic cash operations will be long-term, but the specific decisions will be short-term, because at any given moment we would be talking about cash holdings.

This will require a change of financial culture so that each company's cash holdings are henceforth determined by the interest groups, since these will affect and be affected by the decisions the company makes; but at any given moment our starting point should be the operations rather than the stakeholders, in order to ensure that every decision regarding cash is viable.

Relationships between the various players involved have been studied in the existing literature on cash

holdings. This shows, for example, that there is a relationship between companies' shareholders and their cash holdings. Dittmar *et al.* (2003) found that, in countries where shareholders' rights are more fully protected, companies' cash holdings are lower, although both variables are related to the level of development of capital markets in the country concerned.

A potential conflict

Other writers (Pinkowitz *et al.*, 2006; Kalcheva and Lins, 2007) likewise suggest that shareholders look for managers who will reduce cash holdings. Jensen (1986) also points to this potential conflict between shareholders and managers, for an increase in cash holdings will increase managers' power at the expense of that of shareholders. This implies a potential conflict between shareholders and managers over cash holdings, since these may benefit either the former or the latter in the traditional agency dilemma between principals and agents described in agency theory.

Thus, from the point of view of both shareholder theory and stakeholder theory, there may be a clash of interests when it comes to cash holdings. The specific difference is that in the former case (shareholders) we are basically dealing with a problem of governance, whereas in the latter case (stakeholders) we are dealing with a cash-holding problem. Shareholders' rights, agents' possible interests and all the other stakehold-

Une stratégie consisterait à identifier les opérations de trésorerie de l'entreprise, puis les acteurs impliqués, afin d'analyser toutes les répercussions et de prendre des décisions multilatérales bénéficiant à toutes les parties impliquées.

Un conflit potentiel peut surgir entre les actionnaires et les dirigeants au sujet des disponibilités puisque ces dernières peuvent soit bénéficier aux uns, soit aux autres, selon le classique dilemme de l'agence.

Cependant, le problème serait évité dans l'approche que nous décrivons, car les politiques financières y seraient orientées vers toutes les parties prenantes.

La solution proposée pour résoudre ce conflit (dans lequel les divergences d'intérêts et le manque de confiance entre parties entraînent une augmentation des coûts) consiste à faire collaborer toutes les parties prenantes.

ers' legitimate rights and interests must also be taken into account.

This conflict matters more than any other cash conflict, for it affects not only cash management but also governance, and so the way in which it is solved may determine how cash conflicts with other stakeholders are solved via the company's financial policies. However, this should not be the case in a descriptive approach, for financial policies should be aimed at all stakeholders; but, from a legal point of view, the selection and supervision of CEOs clearly rests with shareholders.

One must wonder what real scope they have to exercise those rights (Boatright, 2008), since in many cases real power is in the hands of the company's management.

Pursuing a joint interest

The proposed solution to this conflict, in which clashes of interest and lack of trust between parties lead to increased costs, is collaboration between stakeholders. This will mean pursuing a joint interest that yields greater value for every interest group by lowering transaction costs and reducing risks. It is based on the Mutual Trust Perspective (MTP) proposed by Dees and Cramton (1991): it is unfair to require an individual to take a significant risk or incur a significant cost out of respect for the moral rights of others unless the individual has sufficient reason to trust those others to incur the same risk or cost.

This effectively states that 'a party will only incur significant costs out of respect for the other party's interests or moral rights if it is satisfied that the other party would make the same sacrifice in the same situation' - an approach based on Kant's categorical imperative, which is often rendered as 'do not do unto others as you would not have them do unto you', in other words avoid doing anything that you would not like another economic player or interest group to do to you.

When seeking to establish a mutual cash holding relationship for purposes of cash management, we must take due account of two factors: the expectation that the other party will respond, and the cost. Trust between organizations is not just a decision-making issue; it increases or decreases on the basis of continuing relationships over a period of time. It will therefore be easier if the first step is taken by the party which has more power and fewer costs, or to which a breach of trust would be less costly.

This means that it is easier to establish a mutual cash holding relationship if this is proposed by the party/stakeholder with more power, provided that the cost of a possible breakdown in this relationship of trust is not too great. Furthermore, if the relationship of trust is to continue over a period of time, the arrangement must have clear benefits for both parties.,

A company cannot be conceived of in isolation from its stakehold-

Cela implique de poursuivre un intérêt commun visant à produire de la valeur pour chaque groupe d'intérêts en diminuant les coûts des transactions et les risques.

Reste à savoir comment obtenir un équilibre approprié entre les différents intérêts des parties prenantes ?

Au sein des entreprises, les intérêts directs ou indirects de la plupart des acteurs sont, par nature, monétaires.

Les parties peuvent avoir des intérêts divergents en ce qui concerne les dates de paiement.

Les solutions envisageables sont : la coercition, la négociation ou la concession unilatérale. Mais toutes ces solutions prennent uniquement en compte la gestion de trésorerie propre de chacune des parties prenantes.

ers, since, aside from the company's virtual existence as a legal entity, in practice it can only be viewed as a web of relationships between its various stakeholders (whether in the broad or narrow sense). The company must therefore take account of the interests of one or more stakeholders. The problem is how to strike a proper balance between their various interests.

The proper balance between interests

This balance is examined from the point of view of corporate ethics, which attempts to determine what that balance should be and how it can be achieved. A number of problems arise here, such as how to justify potential stakeholders' rights, what scope agents really have for arbitration between interest groups' conflicting demands, and relationships with non-stakeholders (i.e. interest groups that do not directly affect or are not directly affected by the company's goals, but may affect or be affected by them indirectly or at some point in the future). In the current crisis, these problems are being looked at carefully.

However, it should be borne in mind that, within companies, most players' direct or indirect interests are monetary in nature. In general, and aside from other psychological and professional components, stakeholders' legitimate interests almost always involve increasing value and earning money.

Up to now, most publications on the subject have explicitly or implicitly focused on management and conflicts over how value is shared out; however, the monetary realization of value is undoubtedly a key factor in many conflicts between supposedly legitimate interests.

Such conflicts may be either 'internal' or 'external'. Internal conflicts involve stakeholders who are legally and permanently linked to the company, the main groups being shareholders and employees. External conflicts involve those who are linked to the company contractually or operationally, but whose connection with the company is contracted and undetermined, e.g. suppliers, customers, financiers or the government. In all these cases, in theory, the parties may have conflicting interests regarding payment dates - debtors will benefit from late payment and creditors from early payment.

Mutual cash holding

The solution to this conflict may be coercion (a position of strength based on power asymmetry), for example when a shopping centre only pays its suppliers after 90 days, or when the government requires VAT to be paid quarterly. Another solution may be negotiation, for example when stakeholders mutually agree on a payment date. Finally, the solution may be a unilateral concession, for example when a seller finances a customer by only billing him after six months. Whether they involve coercion, negotiation or concession,

La proposition que nous faisons ici consiste à ce que les différentes parties prenantes tiennent également compte des disponibilités de leurs partenaires afin de parvenir à une solution qui soit la plus bénéfique pour tous.

L'échéancier de paiement des dettes constitue clairement un problème de gestion fondamental.

Mais paradoxalement, l'éthique financière n'a prêté que peu ou pas d'attention à ce point, jusqu'à présent traité comme une question purement technique.

Ce qui signifie que le comportement égoïste de l'entreprise est considéré comme un postulat.

La principale contribution que l'éthique doit apporter, c'est d'essayer de changer ces attitudes égoïstes.

all such solutions have one feature in common - they solely take account of the stakeholders' own cash management. The proposal we are making here is that the various stakeholders should also take account of their partner's cash holdings, in order to arrive at a solution that is most beneficial to both. Although this may seem an impossible approach to cash holdings, it is already starting to be introduced in connection with account management using new technologies and joint invoice management between financial institutions and companies, banks' electronic invoices or even factoring and confirming. The extension of such techniques may lead to mutual cash holding, and to a financial culture and financial techniques based on mutual trust, yielding benefits and satisfactory results for all concerned.

The timing of debt payment

Clearly, the timing of debt payment is a fundamental management issue. In fact this is a basic assumption in financial theory, which pays considerable attention to cash management or cash holdings and treats these as key tools in the running of companies. Paradoxically, however, financial ethics has paid little or no attention to the timing of debt payment, which is treated as a purely technical issue. What this means is that selfish corporate behaviour, based on optimization of one's own cash holdings, is taken for granted.

In a perfect market, in which the

strengths of the various stakeholders are in equilibrium, contracts may be expected to produce fair agreements that benefit both parties; in practice, however, the market is imperfect and there is evident information and power asymmetry between the players, so that acceptance of the principle of optimizing one's own cash holdings turns selfish behaviour (which exploits asymmetry) into a morally acceptable approach and violates the generally accepted Kantian principle of ethical behaviour between companies.

Even though finance has not developed with ethical behaviour in mind, there is a general consensus that it is 'unfair' for someone to pay a supplier several years after the service has been provided, unless the agreement between the two parties makes the mutual benefits of such an arrangement clear. In itself, such a restriction on delayed payment may imply the existence of ethical criteria of fairness that extend beyond purely contractual requirements. In this connection we may note the Spanish government's decision to restrict delayed payment by major shopping centres.

The approach we propose here goes well beyond the issue of timing of debt payment, or the development of rules, standards and guidelines on how best to manage this in relations between stakeholders. Indeed, in our view, that would mean taking selfish behaviour for granted as a means of interaction, on the assumption that companies, or the various stakeholders, must always seek to maximize

Nous pensons donc qu'il est vital de remplacer les comportements égoïstes conflictuels par des approches visant à optimiser les bénéfices à long terme de toutes les parties prenantes, sur la base d'une confiance réciproque.

La gestion de trésorerie est un élément clé dans la relation et l'équilibre entre les différentes parties prenantes et leurs intérêts.

Il est donc nécessaire de garantir une gestion qui satisfasse les intérêts des parties prenantes (parfois divergents sur le court terme) selon une approche équilibrée qui permette de les faire converger sur le long terme.

their own cash-management interests at the expense of those of their partners. The limits now being imposed are simply designed to ensure that the existing asymmetry does not create 'unfair' situations for the weaker party.

A number of comments need to be made here. On the one hand, negative practices need to be restricted on both ethical and economic grounds; on the other, it would be interesting to know whether the recent recommendations and legal restrictions are in fact motivated by ethical considerations. However, the main contribution of ethics must be to try and change the selfish attitudes on which financial relationships between companies and interest groups have hitherto been based.

We therefore believe it is vital to replace conflict-based selfish approaches with ones that seek to optimize stakeholders' long-term benefits, on the basis of mutual trust. This would not only be more appropriate from an ethical point of view, but would also be more beneficial for stakeholders and for society as a whole. Mutual cash holding by companies or stakeholders with conflicting interests would thus yield greater long-term benefits for stakeholders and society.

This paper proposes a theoretical mutual cash-holding model based on trust, which is fostered by power asymmetry. Mutual cash holding could produce more beneficial results for all the stakeholders that influence or are influenced by companies.

Existing cash-holding techniques and cash-management models are designed to improve the financial position of the company that applies and introduces them. They thus focus on maximizing shareholders' profits and rely on players behaving 'selfishly'. Since no specific account is taken of other stakeholders, value is not generated for all of them.

A change in attitude is needed

This paper makes clear that cash management is a key factor in the relationship and equilibrium between the various stakeholders and their interests. It is therefore necessary to ensure that cash management satisfies stakeholders' interests, which may conflict in the short term, in such a balanced manner that they converge in the long term. In the long term, mutual cash holding by stakeholders will produce benefits for all of them, by increasing solvency and liquidity, and for society as a whole, by reducing insolvency. It must also be borne in mind that this approach can only succeed if it is introduced by the stronger partner in the relationship.

Its theoretical acceptance will ultimately depend on a change of attitude towards cooperation and the elimination not only of information asymmetry and of barriers to mutual trust which prevent people from accepting the obvious before even considering how the system might work. •

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