DECLARATION

I Tafadzwa Patience Chisveto do hereby declare that this dissertation is a result of my own investigation and research, except to the extent indicated in the Acknowledgements, References and comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university.

………………………………    ………………………
Student Signature      Date

……………………………………    ……………………………..
Supervisor Signature      Date
ACKNOWLEDGEMENTS

It has been a long and tough journey to reach this point. For showing me the directions to this destination, my heartfelt Thank You goes to my Supervisor Mr. A. Chidakwa. May God bless you exceedingly and abundantly! It was a great pleasure working with you.

To my parents, I hope this will bring a smile on your face. Family and friends, I know it takes books to mention each of you by name, but I am more than grateful for the pillars of support you have been. Thank you for always providing something I can always lean on.

To God be the glory for his grace and seeing me through my Masters in Business Administration studies at the University of Zimbabwe!

I would like to thank the Premier Service Medical Investments staff for participating in the interviews and giving me the opportunity to carry out this research at the institution. My gratitude also extends to the Graduate School of Management lecturers and staff for the profound knowledge I have gained during my Masters programme.
ABSTRACT
The study examined the effect of a centralised treasury management system on business operations with particular attention to PSMI. The study explored the factors behind the use of centralized treasury management system by the company, identified the costs associated with the current treasury management system of the company, established how centralized treasury management system affects the flow of goods and services along the company’s business units and draw strategic conclusions on centralised treasury management for the organisation. The sample size for the study consisted of central treasury department and strategic business unit’s employees and management. The research utilized both primary and secondary data. Primary data was collected using in-depth interviews that were conducted with employees and top management. All secondary data were taken from the organisations internal documents, relevant journals and articles. Data collected was analyzed using qualitative techniques. The research aimed at shedding light on the impact of centralised treasury on the company’s flow of goods and services along the company’s business units. The results showed that finance managers from strategic business units are only involved in the consolidation of financial information. The research recommend for the need to establish an efficient hybrid treasury structure which combines the positive benefits of centralisation and decentralisation. The company also recommend for a supportive information technology system to complement effective decision making and resource allocation among the strategic business units. Additionally, the study recommends for the creation of a platform for resource mobilisation and deployment between corporate and subsidiaries so as to close the information gap and ensure transparency.
TABLE OF CONTENTS

DECLARATION .................................................................................................................... ii
ACKNOWLEDGEMENTS .................................................................................................... iii
ABSTRACT ........................................................................................................................ iv
LIST OF TABLES ................................................................................................................ ix
LIST OF FIGURES .............................................................................................................. x

1 CHAPTER I: INTRODUCTION .................................................. Error! Bookmark not defined.
   1.1 Introduction .............................................................................................................. Error! Bookmark not defined.
   1.2 Background to the Study ....................................................................................... Error! Bookmark not defined.
   1.4 Research Objectives ............................................................................................. Error! Bookmark not defined.
   1.5 Research Questions ............................................................................................... Error! Bookmark not defined.
   1.6 Research Proposition ............................................................................................ Error! Bookmark not defined.
   1.7 Scope of the Research ......................................................................................... Error! Bookmark not defined.
   1.8 Justification of the Research ............................................................................... Error! Bookmark not defined.
   1.9 Structure of the Dissertation .............................................................................. Error! Bookmark not defined.

2 CHAPTER II: LITERATURE REVIEW .................................. Error! Bookmark not defined.
   2.1 Introduction ............................................................................................................. Error! Bookmark not defined.
   2.2 Overview of Treasury Management System ......................................................... Error! Bookmark not defined.
   2.3 Treasury Management System Models ................................................................. Error! Bookmark not defined.
   2.3.1 Centralised Model ............................................................................................. Error! Bookmark not defined.
   2.3.2 Decentralised Model ......................................................................................... Error! Bookmark not defined.
   2.3.3 Hybrid Structure for Treasury Management System ....................................... Error! Bookmark not defined.
   2.4 Role of Technology In Treasury Management Systems ........................................ Error! Bookmark not defined.
   2.5 Resource Allocation By Appraisal of Portfolios .................................................... Error! Bookmark not defined.


2.6 Top-down VS Bottom-Up Allocation

2.7 Opportunistic Behaviour Influencing Resource Allocation

2.8 Chapter Summary

3 CHAPTER III:METHODOLOGY

3.1 Introduction

3.2 Research Philosophy

3.3 Research Design

3.4 Data Collection Process

3.4.1 Unit of Analysis

3.5 Unit of Data Collection

3.6 Data Collection Methods and Research Instruments

3.7 Data Analysis Process

3.8 Ensuring Validity and Reliability

3.9 Limitations

3.11 Chapter Summary

CHAPTER IV:DATA PRESENTATION AND ANALYSIS

4.1 Introduction

4.2 Overall Response Rate

4.3 Demographic Characteristics of Respondents

4.3.1 Level of Education

4.3.2 Length of Service in the Organisation

4.4 PART A -RESPONSES FROM STRATEGIC BUSINESS UNITS

4.4.1 Reasons for adopting a centralized treasury management strategy
4.4.2 The positive benefits of having centralized cash management ............... Error! Bookmark not defined.

4.4.3 The negative benefits of having centralized cash management .......... Error! Bookmark not defined.

4.4.5 The efficiency of centralisation strategy on Cash inflows and Cash Outflows Error! Bookmark not defined.

4.4.6 Explain, if you think this strategy has assisted PSMI in the following:....... Error! Bookmark not defined.

4.4.7 Group’s liquidity position ........................................ Error! Bookmark not defined.

4.4.8 Role of the divisional Finance manager in relation to the centralized financial resource strategy ........................................ Error! Bookmark not defined.

4.4.9 Quality of information for decision making ..... Error! Bookmark not defined.

4.4.10 Tools to measure efficiency of working capital and liquidity in the group Error! Bookmark not defined.

4.4.11 Monitoring cash outflows from the divisions... Error! Bookmark not defined.

4.4.12 Financial redundancy in SBUs ....................... Error! Bookmark not defined.


4.4.13 Project Appraisal Techniques for project selection financing ............. Error! Bookmark not defined.

4.4.14 Level of participation of subsidiary heads in resource allocation......... Error! Bookmark not defined.

4.4.15 Technological Support to enhance the centralized treasury system ...... Error! Bookmark not defined.
4.5 PART B- CENTRAL TREASURY DEPARTMENT RESPONSES

4.5.1 Reasons for adopting a centralized treasury management strategy

4.5.2 Positive Benefits of having centralized cash management

4.5.3 Negative Costs of having centralized treasury management

4.5.4 The efficiency of Centralization on Cash Inflows and cash outflows

4.5.5 Role on divisional Finance Manager to the centralized strategy

4.5.6 Technological Support to enhance the centralized treasury system

4.5.7 What influences resource Allocations in the Group

5.0 Introduction

5.1 Achievement of the objectives

5.1.1 Factors behind the use of centralised treasury management

5.1.2 Costs of the current treasury management system of the company

5.1.3 Flow of goods and services along the company’s business units
5.1.4 Strategic Conclusions ........................................ Error! Bookmark not defined.

5.2 Conclusions .................................................... Error! Bookmark not defined.

5.3 Recommendations ............................................. Error! Bookmark not defined.

5.4 Further Research ............................................... Error! Bookmark not defined.
<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Response Rate</td>
<td>30</td>
</tr>
<tr>
<td>4.2</td>
<td>Reasons for Centralisation</td>
<td>34</td>
</tr>
<tr>
<td>4.3</td>
<td>Advantages of Centralisation</td>
<td>36</td>
</tr>
<tr>
<td>4.4</td>
<td>Disadvantages of Centralisation</td>
<td>38</td>
</tr>
<tr>
<td>4.5</td>
<td>Cash Inflow and Outflow Management</td>
<td>39</td>
</tr>
<tr>
<td>4.6</td>
<td>Liquidity Management</td>
<td>42</td>
</tr>
<tr>
<td>4.7</td>
<td>Role of Divisional Finance Manager in Centralised Financial Resource Strategy</td>
<td>43</td>
</tr>
<tr>
<td>4.8</td>
<td>Quality of Information provided by SBUs</td>
<td>45</td>
</tr>
<tr>
<td>4.9</td>
<td>Tools for measuring working capital and liquidity</td>
<td>46</td>
</tr>
<tr>
<td>4.10</td>
<td>Management of Cashflows by Central Finance</td>
<td>47</td>
</tr>
<tr>
<td>4.11</td>
<td>Financial Redundancy in PSMI Divisions</td>
<td>48</td>
</tr>
<tr>
<td>4.12</td>
<td>Factors affecting Resource Allocation</td>
<td>49</td>
</tr>
<tr>
<td>4.13</td>
<td>Project Appraisal Techniques</td>
<td>50</td>
</tr>
<tr>
<td>4.14</td>
<td>Level of participation of subsidiaries</td>
<td>51</td>
</tr>
<tr>
<td>4.15</td>
<td>Technological Support</td>
<td>52</td>
</tr>
<tr>
<td>4.16</td>
<td>Centralisation of Treasury</td>
<td>53</td>
</tr>
<tr>
<td>4.17</td>
<td>Benefits of Centralisation</td>
<td>55</td>
</tr>
<tr>
<td>4.18</td>
<td>Costs of Centralisation</td>
<td>56</td>
</tr>
<tr>
<td>4.19</td>
<td>Efficiency of Centralisation</td>
<td>58</td>
</tr>
<tr>
<td>4.20</td>
<td>Functions of Divisional Managers</td>
<td>59</td>
</tr>
<tr>
<td>4.21</td>
<td>Technological Support</td>
<td>60</td>
</tr>
<tr>
<td>4.22</td>
<td>Resource Allocation</td>
<td>61</td>
</tr>
</tbody>
</table>
### LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Level of Education</td>
<td>31</td>
</tr>
<tr>
<td>4.2</td>
<td>Length of Service in the Organisation</td>
<td>32</td>
</tr>
<tr>
<td>4.3</td>
<td>Cash Inflow and Outflow Management</td>
<td>33</td>
</tr>
</tbody>
</table>
CHAPTER I

INTRODUCTION

1.1 Introduction

The chapter introduces the background to the problem, purpose of the study, research questions, limitations, delimitation, and structure of the report. The chapter also presents the intended contribution of the study to the treasury management for companies.

1.2 Background to the Study

The adoption of the multiple currency system in January 2009 had been accompanied by persistent liquidity shortages (Kufandirimbwe, 2011). In this regard, challenges in the health sector have been inextricably bound due to attendant liquidity conditions. Since the adoption of the multicurrency regime, most Zimbabwean companies in general and the medical health sector in particular have been facing a number of operational challenges.

Since 2009, Premier Services Medical Investments (PSMI) also faced a labyrinth of operational challenges which included capital constraints, inadequate energy supplies, water shortages, dilapidated infrastructure, weakened distribution systems and low worker morale due to poor wages (CZI, 2011). In particular, Premier Services Medical Investments (PSMI), has been struggling because of tight liquidity conditions in which they operate, mainly attributable to volatile short-term transitory deposits and limited lines of credit (RBZ Monetary Statement, 2013). After the centralisation of the company’s treasury system, the operational costs has been rising annually and this is summarised below.
As shown in the above diagram, the company’s annual operational costs almost doubled between 2009 and 2013 changing from 15% to 29% respectively. In addition, the money supply growth remained low due to limited lender of last resort role of the Central Bank in the economy. Thus, the cash flow constraints in Zimbabwe had a *domino* effect on PSMI’s strategic business units, with most traditional sources of funding such as banks dwindling. Due to the constraints of access to funding, and meeting operational costs, PSMI was forced to centralize its cash resources from a strategic position to unlock economic value.

PSMI is a medical care investments organization which provides healthcare services that include, inter-alia, radiology, general practice consultation, pharmaceuticals, dental services and optometry among others. The company has thirteen strategic business units which operate under it (PSMI Annual Report, 2012). Before the decade long economic meltdown, PSMI used a decentralised treasury function, with each subsidiary managing its own financial resources through the respective subsidiary General Manager and Accountant. During that time, the corporate treasury office only played an advisory role and guided subsidiary business plans.
However, following the subsequent dollarisation of the economy, the company adopted a centralized treasury management system. This was largely because the subsidiaries were failing to meet critical expenses such as salaries, funding for stocking requirements and suffered excessive working capital deficits (CZI Report, 2012).

Trade receivables became coordinated and collected centrally by the corporate treasury, which would pay for staff salaries and other corporate obligations, whilst the remaining funds were distributed to Business Units as working capital (PSMI Annual Report, 2012). Once these critical expenses were paid, subsidiaries would await an allocation to fund for all trade payables and stocks and this resulted in pressure being exerted on business operations as the respective companies received far below their working capital requirements. Subsidiaries had no control over Head Office decisions on working capital resourcing and this left subsidiaries trying to ensure operational needs are met and contractual obligations with trade payables, mostly stocks are managed with inadequate funding.

Under the new centralized treasury management system, the Group corporate office took over the role of collecting debts from the principal Debtor (PSMAS), pay for salaries and the balance allocating to business units as working capital funding, this structure allowed for more rapid and effective management of scarce financial resources. The strategic decision was meant to enable PSMI and its subsidiaries to effectively coordinate critical pillars of treasury, such as trade receivables, trade payables and Inventory from a consolidated position and unlock value.

It is against this background that the research sought to establish the effectiveness of a centralised cash management system and come up with strategic recommendations to improve the working capital balances and manage liquidity for the strategic business units.
1.3 Statement of the Problem

The strategic business units’ lack of control over cash flows and inefficient cash management has had negative effect on the day to day business operations. As a result the business units operating under PSMI have been facing negative working capital and became prone to credit and liquidity risks (PSMI Annual Report, 2012). The study becomes more relevant today as the Group is operating in the Zimbabwean economy which is experiencing liquidity challenges. For instance, the organisation has not been able to acquire lines of credit from commercial banks to capitalize its operations. Thus, this requires relooking at the function of treasury management and how well it is organized to cushion the firm from financial distress. As highlighted in the preceding discussion, treasury is paramount for business operations. The background to the study also revealed how treasury practices lead to the success of businesses. However, PSMI does not reveal the effective business operations as it continued failing to meet its day to day operating activities. One of the important questions raised in this study is: Does Company’s centralized treasury management system and processes impact on business operations? Answers to these and related questions are critically important for quality management who allocate resources across the organization. Therefore, the purpose of the study is to understand the effectiveness of centralised management system for the organisation.

1.4 Research Objectives

The study aimed to analyse effectiveness of a centralized treasury management system in PSMI’s business operations. The secondary objectives are to:

1. Explore the factors behind the use of centralized treasury management system by the company.
2. Identify the costs associated with the current treasury management system of the company.
3. Establish how centralized treasury management system affects the flow of goods and services along the company’s business units.
4. Draw strategic conclusions on centralised treasury management for the organisation.

1.5 Research Questions

This study answers the following research questions:

1. What are the factors behind the use of centralised treasury management by the company?
2. What are the costs associated with the current treasury management system of the company.
3. How does centralised treasury management system affect the flow of goods and services along the company’s business units?
4. What are the strategic conclusions on centralised treasury management for the organisation?

1.6 Research Proposition

A balanced hybrid of both centralised and decentralised treasury management system promotes allocative efficiency of scarce financial resources, leading to improved departmental performance and positive growth of the group.

1.7 Scope of the Research

The study was carried at PSMI offices in the metropolitan city of Harare, Zimbabwe and involved senior management and finance employees as respondents. The choice of the city of Harare was largely influenced by the fact that the city accommodates the majority of the company’s strategic business units. The study was also done within the framework of analyzing centralized treasury management
system and its impact on business operations. Specifically, the study focused on centralized treasury systems as a strategic tool for effective and efficient resource allocation, diverting cash to where it is needed, balancing working capital and managing liquidity risk for improving business operations.

1.8 Justification of the Research

The findings from the research would have many contributions towards treasury management in relation to decision making at PSMI. The findings are expected to assist PSMI management to realise the need to ensure survival of existing business establishments, while expanding the business across the country. The research will also assist PSMI finance teams to achieve optimum efficiencies in resource allocation, achieving set divisional goals and ensuring survival of the organisation. In addition, the research would assist PSMI to focus on those critical factors that would unlock value and potential for continued growth and expansion of the various business units, creating a strong financial base for the future.

The research will be of paramount importance to the university, employees and the company. It will stimulate further academic debate in the effectiveness of centralised treasury management system for academics. Thus, the research contributes to active academic research and adds to the understanding of treasury management. Hence, the research becomes an important addition to the existing knowledge base.

The findings from the study would bring greater clarity and empirical rigor and will be of greater benefit to practitioners and policymakers alike. Specifically, practitioners would build upon this study by conducting empirical study both individually and in concert. Furthermore, the research would provide an in depth analysis of how centralised or decentralised treasury management come into the foray for medical health companies. The overall objective of the research is to develop theoretical and conceptual underpinnings that are appropriate for treasury management and effective business operations. That would help in providing a foundation for investigating effective business operations for strategic business
units. Literature indicates that company treasury has an important role in fostering strategic business operations and organizational performance.

1.9 Structure of the Dissertation

The study consists of five chapters. Chapter one is the introductory chapter that covers the background to the study, problem statement and purpose of the study, research questions significance of the study, limitations of the study and delimitations. Chapter two is review of relevant literature relating to centralised and decentralised treasury management. The Chapter provides the theoretical frame of reference needed to create a solid foundation for this study. Chapter three focuses on the research perspectives, data collection: population, sampling, research instruments, data collection method, access strategies, validity and reliability of the findings. Chapter four is presentation of data and analysis of results and findings. The chapter summarizes and present the information obtained. The information is organized and structured according to the research questions and frame of reference. Lastly, chapter five is the summary, conclusion and recommendations.
CHAPTER II

LITERATURE REVIEW

2.1 Introduction

The chapter synthesizes the current literature that is germane to treasury management systems and seeks to situate the current study within the existing relevant literature. The literature is reviewed in accordance with conceptual frameworks and empirical literature. It also offers the basis for discussing and analyzing the research findings in later chapters. The chapter presents an overview of treasury management system, centralisation models, and the role of technology in treasury management systems.

2.2 Overview of Treasury Management System

According to Bernanke (2005), the economics of the health industry are changing rapidly and dramatically. Treasury management has attracted increasing attention among both academic and practitioners (Bernanke, 2005 and Zoromé, 2007). In Europe, the increasing interest is related to the liberalisation of the market, technological progress and internationalisation of business. According to Mulligan (2001), the future of business operations has become unpredictable and real world outcomes ultimately impossible to predict. Globally, many medical health companies face huge challenges in managing transactions across multiple locations (Polak et al. 2008). Usually, it is more difficult for the bigger strategic business units of the company, to access and track accurate and timely cash flow information. Thus, as health service providers grow the complexities of the treasury department become far more difficult (Summers, 2003) Maintenance of visible cash, overall liquidity investment, debt, monitoring and managing risks which are treasury routine tasks become easier (Focarelli and Pozzolo, 2005).
In the early 1980s it was already common practice for major corporations to group all financial resources into one treasury management structure (Dow and Cook, 2003). A good example of a centralised treasury management was that of Reynolds Aluminium, in Switzerland which had one treasury unit for hundred business units worldwide (Dunn and McCarthy, 2007). As noted by Dunn and McCarthy (2007), the company’s treasury unit managed all of the company’s monetary resources and the management of the treasury was very prudent in minimizing cost of financing, improving on the working capital management and creating economies of scale.

One of the functions of the treasury department is to keep operating cash balances at a minimum. In addition, the corporate treasurer ensures that the company has access to sufficient liquidity so as to meet its financial obligations as well as ensuring that this liquidity is managed efficiently (Johnson and Kaplan, 1987). In some European countries such as Turkey, the company’s treasury departments control all financial transactions and makes payments on behalf of spending business units. In countries such as Czech Republic, the treasury department set cash limits for transactions but spending business units have the power to transact payments directly (Lakonishok, Shleifer and Vishny, 2002).

The first shared service centres were developed by American health institutions companies with the objective of maximising return of investments in enterprise resource planning solutions (Zoromé, 2007). These companies were also driven by the desire to share resources, avoid duplication, learn and control, achieve economies of scales (Chiara, 2001).

2.3 Treasury Management System Models

The debate on the adoption of a centralised or decentralised model has long been a tabled by many treasurers and financial officers. Each model offers benefits to the organisations and trying to delineate which is superior is a difficult task (Laudon and
Laudon, 2005). This debate over a centralised versus decentralised treasury structure is not a new one. It has long been the source of discussion and frustration for many treasurers and chief financial officers (CFOs). Each structural model offers benefits to the global organisation and delineating which model is clearly superior is a difficult task, and one that requires careful consideration. The model design an organisation adopts will depend on available resources, business footprint, executive commitment, and available technology (Heeks and Davies, 2005).

For success of the model, treasurers select, for implementation prior senior management buy-in, a well-defined plan, and sufficient resources can hinge on their ability to secure implementation. These models are discussed below:

2.3.1 Centralised Model

The fully centralised model of treasury management concentrates the funding and liquidity management at the company's central treasury level (Nkone, 2008). The central treasury is usually responsible for the distribution of funding around company, monitoring compliance and managing pools of liquid assets. Many large corporations have been restructuring their treasury management systems in order to have a better view and control of group wide liquidity and exposure situation (Scapens, et al. 1996). The trend towards the centralisation of cash management from local units is now reaching optimal levels in many companies. As noted by Cárdenas et al. (2003), most companies with more than 5,000 employees prefer to centralise most payment functions.

Increasingly, the benefits of centralised treasury have been recognised by most American and European companies of all sizes. Sakagami (2005) elucidates that this is because of uncertain financial environment, rising costs, volatility of risk and expensive financing. In fact, the value of centralisation includes cash management, financing, investment and foreign exchange including both routine activities and strategic management (Kasper and Streit, 1998). With centralisation decision-making will be concentrated and this means that when bad decisions are made the
entire systems will be damaged. Findings by Baba and Packer (2009) revealed that the Lehman Brothers centralisation of treasury helped in the reduction of costs, improved risk management by giving a better view of short term assets and liabilities and provided an instant dashboard of cash positions across business units, but the bad decisions made at the central helm caused the entire collapse of the institution. Thus, companies such as Lucent Technologies adopted centralised treasury management system so as to consolidate the business exposures and reduce cash flow volume transactions (Pollitt and Putman, 2006).

Furthermore, Bernanke, (2005) believes that the use of centralised business operations guarantees business visibility. The other main advantages of centralised treasury are its ability to deliver unified, efficient, measurable and transparent processes (Belkaoui, 2003). Moreover, Chase and Aquilano (2005) believes that a centralised treasury brings together the most qualified people, their knowledge and skills into one centre which allows the organizations management to grow and monitor treasury operations efficiently and smoothly. The enhanced control and transparency from centralisation helps to improve the organisations risk management in terms of both compliance and financial risk. Thus, it is possible to raise stop signs about transactions that may put a company at risk. According to Fowler and Scott (2001 ), having cash in one place helps in monitoring risks such as interest rate, counterparty, liquidity, settlement and systemic risks.

Jones, (2003) believes that centralisation of the company helps in building economies of scale and rationalizes costs and every part of the business will be usually challenged to demonstrate how it adds value. Thus, centralisation is paramount to achieve this through the lowering of costs of debt, increasing investment return, providing expertise to strategic business units, reducing financial risk and ensuring liquidity across the group (Sebastián and Hernansanz, 2000). Treasury centralisation is paramount because it is the backbone of several critical environmental and professional trends facing many businesses such as
globalization, scaling down of functional competencies and management of risks (Polak, 2006).

Many companies which have been decentralised in the past have gradually looked to centralise some aspects of the group such as head office and back office functions which are not specific to the business and where economies of scale can be achieved (European Central Bank 2009). Additionally, Giegerich and Alberto (2002) posit that highly acquisitive companies or those which restructure regularly often find centralisation difficult. This is because in this position companies which have been successful in centralising their treasury have often developed a standard procedure for moving the treasury activities of acquired business into group treasury function. Central to achieving this is the right technology in place centrally into which business can focus on issues such as bank accounts, staffing and debt or investment migration (Huang and Ratnovski, 2009).

However, studies by De Haas and van Lelyveld (2010) revealed that centralised organisation planning is uniquely ineffective as resource allocators. This is because central planners can’t allocate resources according to the true state of supply and demand. For instance, capital, time and labour are allocated based on the planners’ preferences rather than the preferences of the wider business units of an organisation. This is also corroborated by studies by Dietrich and Vollmer (2010) in Turkey in the banking sector which revealed that centralised systems tend to be both fragile and mistake prone.

2.3.2 Decentralised Model

Decentralisation refers to the degree of financial autonomy of subsidiaries relative to the central treasury of the company (Myners, 2001). The complete decentralized model devolves the liquidity and funding responsibility of management. The decentralised treasury management model usually includes one or more business units treasury centers, located throughout a company’s footprint located in key
markets (Ito and Chinn, 2009). These centers offer treasury expertise and leverage knowledge of business unit financial markets practices and protocols. According to Pokutta and Schmaltz (2009), the decentralised model solves many of the problems that large corporations’ treasuries face. Many treasury departments across the Middle East operate in a silo fashion through the decentralised approach (Kasper and Streit, 2004). In a typical decentralized business operating environment, a company may allow its strategic business units to manage their own payable and payment processes. Each business division will be using its own staff and infrastructure to support operations (Riebel et al. 1992).

However, decentralized treasury management systems do have their procedural and resources challenges (Warner, 2003). Usually the approach is beset by mistakes which can be easily transmitted or amplified. The major challenges posed by the approach include communication and oversight challenges to the head offices (Riebel, et al.1992). In particular, in challenging economic times, the extra costs of maintaining multiple treasury systems and sites, redundant staff, can become a challenging economic hurdle to overcome. As observed by Geerts and McCarthy (2000), the approach is highly inefficient, error prone and costly especially for organisations doing business globally where the need for centralisation is paramount.

Although, while decentralisation offers flexibility, studies by Scapens et al. (1996) shows that it can also result in poor consolidated visibility of cash balances and interest rate risks, because of the fragmented view of cash and an absence of pooling mechanisms. Additionally, a lack of automation, poor standardization in treasury systems across different SBUs can lead to risks in transactions that are not processed straight through (that is incorrect payments and data redundancy).

Both Hood and Jackson (1991) postulate that the decentralized model posses a number of challenges which include having an overall view of the organisation’s cash position and exposure to risk on a timely basis. For example, different
departments in the business will often have different systems and different ways of reporting and recording information. As noted by Murthy and Wiggins Jr. (2003), this would mean that it may take longer time to construct an enterprise wide risk and cash position when combining financial information from varied sources. As a result, this information is often only produced monthly or even less frequently. Yet, it is impossible to make strategic decisions without access to timely, accurate information which is particularly significant during periods of economic volatility Murthy and Wiggins Jr. (2003).

According to Stein (2002), from a human resource motivation perspective, the advantage of decentralized model is that it enhances research incentives of line managers. Under a fully decentralized structure, the divisional manager is at the helm (as CEO) which ultimately gives him the authority to allocate the firm’s funds as he sees fit. In contrast, if a line manager is within a large hierarchy, there is risk that a superior higher up in the organization will decide that investment opportunities are better placed elsewhere in the organisation and will sharply cut his capital allocation. In this scenario the line manager does not act on the information that he has produced and is unable to credibly pass it on, the line manager’s research effort goes to waste. From this it means the ability and authority to allocate capital is separated from expertise, which more often than not dilute the incentives to become a financial expert.

2.3.3 Hybrid Structure for Treasury Management System

There is no perfect answer to the question of what is the optimal structure for a corporate treasury. Baker (1993) and Dunn and McCarthy (2007) concur that the implementation of a hybrid structure that takes the best of centralised and decentralised treasury structures and allows for the tailoring to the specific needs of the organization. Thus, the hybrid approach can offer full cash visibility across an entire operation, spanning geographic locations, time zones and offices, while providing local and regional support.
The hybrid approach to treasury management allows for some decisions to be made centrally and some decisions decentrally. For instance, planned and known financial orders can be processed centrally whilst unknown orders are processed decentrally. The extent to which each of these functions becomes the focus depends entirely on factors like the size of a business, its business model and the expected role of the treasury department within that business.

The hybrid approach, however, presents a new problem, that of uncertainty of demand for financial resources (Nkone, 2009). As a result, financial resources could run out at a location and this problem arises because there will be no same degree of financial supply and demand as the centralized approach, where all decisions immediately reflected.

The hybrid approach only updates the financial inventory periodically and the two consequences include long time before financial resources are moved from another location. The other result is linked to financial effort associated with resources transfers (Nkone, 2009). This is predominantly the case when financial resources are transferred from abroad.

Having established the variant benefits, pros and cons of the three models of treasury structure options in organisations, the next section looks at the critical role technology plays in treasury management. Literature to address the driving forces behind resource allocation is also explored.

2.4 Role of Technology in Treasury Management Systems

Forester (2000) argues that the rapidly evolving technology is one of the reasons why treasury’s role is expanding a more intensive management of working capital. In particular, the internet has brought about many implications for the way business is done (Forster, 2000). To survive in the new economy, there has to be
convergence of technology (Emmett, 2002). Sound conventional business sense and an attempt to understand and assist customers should prevail (Emmett, 2002). Thus, business has to use technology to improve business processes.

Sungard (2010) indicates that most organisations face the challenge of financial forecasting save those that have consistent, recurrent revenue streams in place. In majority situations information and data derived from different sections of the business is prone to variations and different assumptions in the way it is consolidated and constructed. Not only is the underlying data frequently unreliable, but can be extremely difficult to combine in a consistent and coherent manner.

Most companies whether centralised or decentralised in their business approach have aimed to standardise the information technology infrastructure by using enterprise resource planning such as oracle or SAP (Huang and Ratnovski, 2009). According to McGuire and Tarashev, (2008) information technology makes consolidating cash flow easier and can manage liquidity more effectively.

The decentralisation of treasury has been driven by the desire to remove control from IT central units, higher use of computerised systems, faster systems development and perceived lower costs. According to Thomas and McClain (1993), companies of all sizes are embracing technologies such as Cloud and this has removed technology from being a hindrance to managing decentralised treasuries. In fact, Bauer et al. (2007) believe that web technology has created opportunities to connect to remote to remote users and ensure that all processes and controls are optimised.

2.5 Resource Allocation By Appraisal of Portfolios

Lawrence and Banacosta (2005) argue that allocating resources requires an accountable manager to make decisions; prioritising options in an activity that can
be carried out by key players, in the context of this study, key players being the divisional heads. It is useful to distinguish two different prioritisation tasks: appraisal of options and constructing portfolios (Nkone, 2009).

Option appraisal or evaluation is the process of arriving at an overall ordering of several options within an area. For example, a project manager of a research and development team might look at several options within the team’s area to decide which ones look most promising for further development. Constructing portfolios, on the other hand, refers to the appraisal of options across many areas and finding the best combinations of options for a given level of resource. A research and development director will wish to construct a portfolio within the available budget of the very best options across the many areas of development activity (Lawrence and Banacosta, 2005).

The three main perspectives on portfolio resource allocation decisions derive from corporate finance, operations research optimization methods, and decision analysis. Each places a different emphasis on how benefits, costs and risks are handled. The corporate finance perspective assumes that benefits are expressed in monetary terms, the appraisal of a project’s worth is determined by calculating its net present value (NPV), and that the project should be undertaken if the NPV is positive, an indication that the benefits outweigh the costs (Brealey, Myers, and Marcus, 2005).

In not-for-profit organisations, the benefit of a project may be determined by applying cost-benefit analysis, which is based on social welfare economics, with willingness-to-pay and willingness-to-accept studies conducted to translate non-monetary benefits into monetary values (Treasury, 2003). With all costs and benefits expressed in present monetary values, NPVs can be calculated. In all cases, when budgets are limited, the appropriate criterion is not just a positive NPV, but rather the ratio of NPV to the investment costs, a profitability index that represents value-for-money. Risk is often accommodated in the discount rate applied to each year’s total cash flows, with higher discount rates applied to the projects that are risky. This
requires a judgment of the risk associated with each project, as distinct from the risk of the organisation. The third perspective arises from decision analysis, though two different approaches are evident in practice. In the first approach, conventional decision trees model each project’s risks and future decisions that could be taken after the receipt of relevant information (Clemen, 1996).

2.6 Top-down vs. Bottom-up allocation

The decision process senior management employs in order to choose the level of resources to allocate to a strategic initiative falls within two broad categories: top-down or bottom-up. In top-down processes, senior management dictates a fixed resource level to middle management to oversee. Alternatively, bottom-up processes grant the project manager the decision rights (Aghion and Tirole. 2007). While a top-down process allows senior management to maintain explicit control over the resource level decision, a bottom-up process allows senior management to utilize the project manager’s initiative-specific knowledge to better tailor the resource level decision to the needs of a particular initiative. Both methods are widely advocated and encountered in practice, yet little guidance has been offered regarding the context-specific application of either decision process.

According to Hutchison-Krupat and Kavadias (2013), there is, however, an additional decision process employed by practitioners known as “strategic buckets” that has received much less attention from the academic community. A strategic-buckets decision process seeks to maintain some of the control achieved through a top-down process and still utilize the specialized knowledge of the divisional General Manager, as in a bottom-up process. To achieve this senior management defines distinct categories of initiatives (e.g. low and high risk) and assigns a specific level of resources to each specific category. Practitioner studies have observed that firms that follow a strategic-buckets decision process tend to outperform other firms, citing that a strategic buckets process enables firms to better “protect funding” for
initiatives that are deemed particularly difficult and/or risky to execute (Cooper, 2005). Scholars have long studied the efficient implementation of top-down resource allocation (Harris, Kriebel and Raviv, 2007).

In an effort to curb against information asymmetry challenges, another important aspect is to focus on the consequences that project managers face when they are held accountable for the failure of an initiative. There is ample evidence that organizations differ in the consequences they impose following failed outcomes (e.g. a diminished intra-organizational status reflected in the career paths or development programs the manager is considered for). This dimension of a firm’s “tolerance for failure,” has recently drawn attention as an important determinant of task choice and execution (Manso, 2011). It has been found that the consequences associated with failed initiatives are strongly dependent on the magnitude of resources allocated to an initiative. Even in a harsh corporate environment, an initiative that fails, yet consumes negligible resources, would not warrant detrimental consequences for the project manager’s career.

2.7 Opportunistic Behaviour Influencing Resource Allocation

Vogislav and Gordon (2002) established that several recent academic papers and the business press claim that conglomerate firms do a poor job of investing across business segments thereby destroying value. The explanations for this underperformance share the idea that there is an imperfection either in firm governance (agency theory) or in financial markets valuation of firm industry segments. According to this view, the firm’s investment policy is driven by opportunistic agents usually the managers or the owners of a subset of the firm’s securities, who attempt to distort the policy for their private benefit (Jensen, 2006).

Vogislav and Gordon (2002) say that firstly, the agents may invest optimally, but divert a portion of the proceeds for their own benefits as higher overhead at the firm
level or as overpayments for acquisitions. The diversion may involve higher payments to some factor of production investment, labor, or materials. In that case, the link between measured productivity and investment would be broken, and the comparative-static predictions of the profit-maximizing model may be rejected. Second, the agents may have a private benefit from investment in capacity. In that case, firms invest more than is predicted by the profit-maximizing model developed above, but still allocate resources to the segment with the highest marginal return. Lastly, opportunistic behavior by agents may cause firms to misallocate resources across segments. The misallocations may occur either because of internal conflicts within the firm or because firms diversify into industries in which they have insufficient expertise.

Guido and Raith (2006) assume that if two companies merge to become one, in which a common top management, or CEO, has the authority to allocate resources between the divisions, to do so efficiently, the CEO needs to know about the production possibilities of the divisions. This information, however, typically resides with the division managers. We therefore refrain from assuming any divergence of preferences between division managers, CEO, and owner, except that the managers’ effort is privately costly. In this setting, the cost of giving an unbiased CEO authority over resources is not per se that it reduces the managers’ incentives | on the contrary, with perfect information, their incentives improve. Instead, the problem is that coordination through centralized decision-making requires aggregating the private information of managers who are endogenously biased because they want their projects to succeed. Establishing truth telling then comes at a higher cost of providing incentives for effort. Intuitively, allocating the firms resources is best done by an unbiased decision maker, whereas creating investment opportunities for a division is best done by someone whose incentives are strongly aligned with that division.
2.8 Chapter Summary

The purpose of chapter was to contribute to the understanding of treasury management systems. It discussed various models of treasury management systems by used by various companies. The study found that hybrid approach to centralisation is the most widely used because it gets advantage of both centralised and decentralized model. The literature also showed that the use of information technology in the centralisation process is important. However, in developing countries this is still a new concept. The second subcategory was the top-down and bottom-up allocation of resources distinguished by strategies that promote incremental within the boundaries of an existing healthcare system.
CHAPTER III

METHODOLOGY

3.1 Introduction

This chapter reflects upon the underlying assumptions about the research methodology employed during the research. In addition, the research methods used are also discussed in great detail with the corresponding strengths and weaknesses. The literature on research methodology to support the researcher’s choice of methods is used wherever deemed necessary. Also included are issues regarding research bias, reliability and validity of the research findings. The section also describes the various research instruments used throughout the research and also highlights the rationale behind choosing each one of those instruments.

3.2 Research Philosophy

Research about centralisation of treasury management system on a healthcare company appears to be very scarce and there is limited understanding about the subject strategically. The factors behind the emergence of centralised treasury are still unexplored areas in the strategic treasury management school (Deakins and Freel, 2008). In addition, because of the complexity of the topic, there is the need to ease the findings into real life practices. In that case, an exploratory research was seen as useful to clarify and understand the problem by collecting as much information as possible about the precise problem (Yin 2004). Thus, the research was exploratory as it attempted to explore and gain more insights about the problem.

In order to understand the phenomena under study, the research study was premised on an interpretivist research approach as it sought to comprehend the
world from the respondents’ point of view, in this case PSMI. Gronewald, (2004), posits that interpretivism involves studying the lived experiences of particular organisations and the world as understood from the perspective of people involved (Welma and Kruger, 1999). In this particular study, the researcher would like to understand the effect of a centralised treasury management system on Premier business operations at PSMI.

The reason for choosing interpretivism was grounded in the fact that little had been done in Zimbabwe to study this phenomenon and therefore interpretivism was considered to be more ideal. Further the study sought to gather different views from different respondents, a situation that could best be achieved by adopting an interpretivism paradigm. It is important to note that interpretivism research paradigm usually utilizes small samples whilst positivism uses large samples (Collis and Hussey, 2003). For this research, small respondents from senior management from finance department employees were targeted and agreed to take part in the research. Therefore, interpretivism philosophy was considered applicable as it tried to understand the perceptions of respondents from their own world view. In addition, the research philosophy utilized samples of subjective data since it encouraged rich and detailed information to be obtained (Collis and Hussey, 2003).

The research used qualitative research techniques to gather information because they provide rich information about people, their experiences and behaviour (Bryman, 2004). The design provided a more personal setting. Yin (2003) elucidates that qualitative rather than quantitative approaches gives researcher room to closely monitor and work with participants within an organization and collect information that is pertaining to their personal experiences and thoughts.

In this study a qualitative approach was used, which included in-depth interviews. This helped the researcher to explore the perspectives of all the respondents. In addition, the researcher was not able to impose their assumptions, limitations, and delimitations or definitions, or research designs upon emerging data (Patton, 2000).
Thus, the researcher’s role was to record what they observe and collect data from subjects’ in their natural environment. Furthermore, the researcher would record, fully, accurately and unbiased, and view reality as seen in the eyes of subjects (Yin, 2003). The principles of qualitative research were adopted because it was envisaged that the study was trying to solve the existing problem of the effect of a centralised treasury management system on Premier business operations.

As explained by Babbie et al. (2010), qualitative research is suitable for social scientists to study human action from the perspective of social actors. They further argue that, the qualitative researcher’s emphasis is on studying human actions in their natural environment, which means that, they study people in their communities. A qualitative research approach therefore was more efficient and effective for the present study, as the researcher seeks to gain a deeper understanding of the respondents.

3.3 Research Design

The study employed a case-study research design as a qualitative analysis that involved careful and in-depth investigation of a particular unit or event under study. This research design was selected in order to provide information on this particular study and also have in-depth study in the area under investigation. The design was appropriate for qualitative studies of this nature which sought to investigate deeply into the phenomenon under study. This research design was selected because it permitted the investigator to find answers from both management and employees on research questions and get respondent’s behaviour, attitudes or opinions (Neuman, 2005).

According to Kothari (2004), the case study design is popular form of qualitative analysis and involves a careful and complete observation of the social unit such as a person, a family, an institution, a cultural group or even the entire community. Furthermore, the case study method provided the researcher with more information.
about organisation processes (Creswell, 1997). Moreover, the case study is also less expensive.

Furthermore, a case study enabled the researcher to obtain rich contextual descriptions and observe the particular problem in depth (Saunders et al. 2003). The ambition of this study was not to generalize the findings to the whole population, but to provide insights and eventual guidelines for the organisation. Thus, the case study was used to gain deeper insight through the application of a set of ideas and this also helped in developing theory which was better grounded, more accurate and more specific (Eisenhardt and Graebner, 2007).

3.4 Data Collection Process

3.4.1 Unit of Analysis
The unit of analysis consisted of 29 senior management and employees of PSMI. Thus, the study population for this research was expressed in PSMI management and finance department employees. It was not within the scope of this study to interview every employee of the organisation.

3.4 Unit of Data Collection

From the entire population, the researcher selected a manageable group of respondents. In selecting the sample, the researcher had two sampling methods to select and these included probability and non-probability sampling (Saunders, et.al 2007). For the purpose of this study, judgment sampling was used because of the nature of the research. The research sought to interview people who had knowledge about the issue under study. Sometimes it is referred as a purposive sample because it involves a specific purpose (Sidat, 2008). According to Zikmund (2003), with purposive sampling, an experienced individual selects the sample based upon some appropriate characteristics of the sample member. According to Hair et.al, (2003) judgment sampling is more convenience and low cost involvement. Purposive sampling technique was used because it allowed the researcher to pick interview respondents that fit the focus of the study (Osuala, 2001).
The total sample was 15 respondents from a target population of 29. This represented about 51.7% of the target population. According to Cooper and Schindler (2001) a calculated sample size exceeding 5% of the target population offers adequate precision in terms of reliability of the results. This is also in line with findings by Zikmund (2003) who postulates that sample size percentage has a direct influence over the accuracy of the research findings. Therefore, a sample representing about 51% of the population was considered appropriate.

3.5 Data Collection Methods and Research Instruments

For the purpose of this research, semi structured in-depth interviews were used to collect data from the participants. Free format responses were used to collect data, while allowing room for individuals to pursue topics of particular interest to them. This gave them leeway to them to detail their experiences, explain their situations and scenarios and events that had occurred in their lives. A similar approach is suggested by Bryman (2008). In-depth interviews allowed a relationship to be developed with informants and a greater understanding of their views.

Interviews with respondents were conducted while they were at their offices. This created a comfortable and relaxed setting and also allowed them to carry on working while being interviewed. The interview questions were open-ended with a minimum of structure, allowing for flexibility and detailed information to be gathered as suggested by Bryman (2004). The questions were adapted during the research process based upon the responses and understanding of participants.

According to Fraenkel and Wallen (1996), the advantages of using the interview technique approach are that the respondents can expand on areas of interest and uses non-verbal cues such as facial expression to emphasize their responses. The researcher carried out the interviews so as to eliminate bias and costs.
An interview guide was drafted using both unstructured open ended questions. The interview guide was pre-tested before use in order to establish its suitability for use as well as whether the questions can be easily answered by the respondents. This was in line with Bryman and Bell (2007) recommendations that pilot test should be conducted before it is administered to the sample population. According to Zikmund (2003), a pre-testing study provides an opportunity for the researcher to determine whether the respondents had any difficulty understanding the questions. The interview part of the study was conducted from December 2013 to January 2014.

3.6 Data Analysis Process

Neuman (2006) elucidates that there is no standard format in data analysis in qualitative research. Once the fieldwork was completed, the results were analyzed in opinion based methods. The data was converted into a format that will answer the research questions (Zikmund, 1997). Qualitative research was analyzed by content and narrative analysis as suggested by Babbie (2004) and the data was fully transcribed. Coding helped to identify themes and patterns in the data.

The data processing consisted of coding, data entry and data cleaning. The idea was to try and collate the data into a manageable form and construct a narrative around it. Examples were used in the narrative whilst keeping things concise and interesting. Some numerical data were shown but the researcher only tried to judge trends and not analyze every last piece of data. Thus, the data collection meant deciding what and which meanings to words and how they relate to the topic under investigation (Miles and Huberman, 2004). The data was thus analyzed by going through all the questions and establishing common themes, patterns and relationships (Miles and Huberman, 2004).
3.8 Ensuring Validity and Reliability

Qualitative research has been a subject for discussion about the value of this kind of research, leading to many suggestions for alternative quality criteria (Flick, 2006). This research followed the assessment criteria provided by Yin (2004). Yin (2004), mentions four tests that have been traditionally used to assess the quality of empirical social research. The tests consist of internal validity; construct validity, external validity and reliability.

3.8.1 Validity

To increase the construct validity, the study used documentation and interviews in order to create multiple sources of evidence. In addition, the researcher followed the chain of evidence from the initial problem statement to the final conclusion of the case study (Yin, 2004). Internal validity usually is about explaining causal relationships or specific processes. As this was not the case in this study this validity was omitted. External validity in a qualitative study is enhanced by generalising the findings to other studies with similar settings (Yin, 2004). However, this test was also omitted as the research dealt with a single case study. This test is problematic when performing single case studies, it offers poor basis for generalisation of results.

3.8.2 Reliability

According to Davies (2011), reliability refers to the degree by which independent researchers studying the same topic within the same prescribed working framework come up with similar results. Reliability is therefore the degree of consistence that is demonstrated by the procedure employed in a study to give reliable estimates, Davies (2011). To ensure the reliability of the instruments used for the interviews were piloted and adjusted before they were administered to respondents.

The research also adopted recommendations by Yin (2004) that the researcher must follow a case study protocol in which research related material and different
data accumulated during various stages of the study are collected. This helped in increasing reliability of the research (Saunders, 2003). In this way, all steps of the study were well documented to allow an eventual repetition of the research.

3.9 Limitations

Accessibility of some of the respondents was a challenge in this study because some of them were always busy and constantly out of office. Getting the correct responses was a challenge in some cases as some employees felt threatened and therefore did not present truthful information in some of the areas discussed. Also some information was confidential and some questions were sensitive to the respondents. The researcher, however, assured confidentiality to the respondents and anonymity and hence the confidence in respondents to give accurate information. Confidentiality was assured by telling the respondents that their names will not be mentioned.

3.10 Ethical Considerations

The research was in line with research ethical guidelines in that permission was sought from management to conduct the research. Participation by respondents was voluntary and confidential and respondents were free to participate or not to. Before interviews were conducted, participants were clearly advised about its purpose and how long it would take to complete. There was voluntary participation. Participants were not required to give their names or any contact information to ensure that the information given would bring no harm physical, psychological and/or legal (Jennings, 2001). Furthermore, participants were informed about their right to stop the interview if they did not want to continue.

3.11 Chapter Summary

This section has highlighted the research methodology and design which were used in seeking to answer the research questions. The research used a qualitative research design in data collection. Individual interviews were used to ensure the
reliability of the data collected in the study area. The chapter also included the sampling procedure used in the study, the life histories of the study group, secondary literature, and concluded by explaining the data analysis technique of the primary data collected.
CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The chapter presents how the data was collected and discusses the findings basing on the data collected from the respondents. The chapter is structured as follows: it starts by giving the overall responses by key informants, followed by analysis of the responses and lastly chapter summary and conclusions.

4.2. Key Informants Responses

The researcher had targeted a total of 28 respondents for the interviews from the company’s 13 strategic business units. These were mainly divisional heads and financial managers from both strategic business units and central treasury. However, the researcher managed to get hold of 13 respondents whose responses were used for further analysis. Kotler (1997) argues that it is not really necessary to sample the entire target or even a substantial percentage to produce reliable results. Samples of more than 1% of a population can often provide good reliability, given a creditable sampling procedure (Kotler, 1997). The response rate for was 40% and this was considered desirable to continue with data analysis. The study’s response rate is summarised below:
Table 4.1: Response Rate.

<table>
<thead>
<tr>
<th>Interviews</th>
<th>Anticipated Respondents</th>
<th>Actual Respondents</th>
<th>Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group corporate staff</td>
<td>13</td>
<td>5</td>
<td>38 %</td>
</tr>
<tr>
<td>SBU staff</td>
<td>15</td>
<td>8</td>
<td>53%</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>13</td>
<td>46%</td>
</tr>
</tbody>
</table>

Source: field study (2014)

It should be noted that the response was lower than expected. This was because other respondents who had been sampled could not be interviewed because of commitments elsewhere and other respondents refused to be interviewed.

4.3. Demographic Characteristics of Respondents

The researcher analysed the demographic characteristics of the respondents and these included educational qualifications and working experience. These are explained below:

4.3.1 Level of Education

During the interviewing, the respondents were asked about their educational qualifications and the findings are summarised below:
Figure 4.1: Level of Education.

From the above graph it can be seen that 64% of the respondents had degrees; 27% were holders of master’s degrees and 9% of the respondents had doctorate degrees. However, no respondent had diploma qualifications. The results do reveal that the majority of the respondents were qualified enough to understand the needs and expectations of the study since they possessed at least a tertiary qualification. Thus, their contributions were important to the study. At the same time, the findings do show that the majority of the respondents had theoretical knowledge of centralisation and treasury management.

The above findings are in line with the studies by Sebora and Wakefield (2008) which shows that in any organization, employees with higher education are better in managing the business operation than those who are less educated. Researches by Castillo and Wakefield (2006) point out that academic background and expertise influence the performance of organisations. Additionally, qualified employees do offer a rich source of innovative ideas to develop policy initiatives with analytical depth and rigour necessary for offering unique perspectives on strategic issues.
(Westphal and Milton, 2000). Accordingly, staff with higher qualifications would extend knowledge base and stimulate top management to consider alternatives and enhance thoughtfulness when looking for solutions.

4.3.2 Length of Service in the Organisation

The number of years of experience for the respondents in the company was also considered relevant to the study. The findings are summarised below:

**Figure 4.2: Length of Service with the Organisation**

![Chart showing length of service](image)

**Source: field study (2014)**

The above findings suggest that all the respondents have been long enough with the organisation to know about the centralised treasury management system which is being used in the organisation. The respondents have been with the organisation for a long time and would be in a position to understand the organisational culture. Thus, the relatively long period of association of respondents with the organisation is indicative of the extent of respondents' knowledge of the centralisation of the treasury (Flick, 2006).
It can be inferred from the above findings that the information gathered from the study was from experienced people who had background information of the subject under study and thus the results obtained can be relied upon. This is also in line with studies by Nonaka and Takeuchi (2005) which revealed that tacit knowledge of treasury centralisation is usually embedded in individual experience and involves intangible factors, such as perspectives and value systems.

4.4 PART A -RESPONSES FROM STRATEGIC BUSINESS UNITS

4.4.1 Reasons for adopting a centralized treasury management strategy.
The table below summarises the responses of key informants on issues relating to the reasons why the company adopted centralised treasury management strategy.

Table 4.2 Reasons for Centralisation

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>Centralisation was adopted because the company was buying operations and this was seen as prudent and accountable. It was the only way the company could know if it was making profits.</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>PSMI adopted centralisation of treasury so as to ensure survival and profitability of the company.</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>PSMI is by and large one business managed on product line basis of which the products are interrelated the decentralised treasury approach will result in loss of these synergistic advantages</td>
</tr>
</tbody>
</table>
Respondent 3
Following the economic meltdown which affected the country it became necessary to centralise all operations of the company to ensure control

Respondent 4
Centralisation was adopted as a survival strategy

Respondent 5
The company wanted to reduce operation costs and globally monitor transactions of SBU’s

Respondent 6
Centralisation was adopted as a way of controlling the inflow and outflow of cash.

Respondent 7
Allowed the company to have greater control over risk and improve productivity.

Respondent 8
Ensure survival of the group given the prevailing economic conditions

Source: field study (2014)

From the findings, it was common among the respondents that the increasingly challenging operating environment created the need to ensure survival and this led to centralisation of treasury systems. There was need to control working capital and ensure efficiency in managing the Groups liquidity. The findings were in agreement with a study by Collingridge and Margets (2004) in France which revealed that centralised treasury can help corroborates improve working treasury management efficiency, streamline account structure and improve cash liquidity management. In terms of costs, studies by Hayward (2004) shows that centralisation of treasury also reduces transaction costs. In addition to these, the above findings reveal that centralised treasury is important for a company to help optimise liquidity and lower operational costs as well as introducing efficiency into risk and cash management across all the strategic business units.
### 4.4.2 The Positive Benefits of Having Centralized Cash Management

Respondents were also asked on the possible benefits brought by the centralisation of cash by the organisation. The findings from the interviews are tabulated below:

**Table 4.3: Advantages of Centralisation**

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>It helped the company in controlling costs in all strategic business units.</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>This helped in the survival of non-performing strategic business units. SBUs with low cash generation would be assisted by those who generate cash</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>Our unit was not flowing smoothly as the principle Debtor payments were not coming on-time making it difficult to pay salaries.</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>As a subsidiary we had increased borrowing capacity and improved risk profile. This was going to be difficult if we operated as a single entity and increase capacity.</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>The financing of costs such as salaries, information technology and marketing programmes became easier.</td>
</tr>
<tr>
<td>Respondent 6</td>
<td>We had increased bargaining power and enjoyed economies of scale when purchasing stocks.</td>
</tr>
<tr>
<td>Respondent 7</td>
<td>Our unit was not doing well and we managed to secure funding.</td>
</tr>
<tr>
<td>Respondent 8</td>
<td>We were given funding for new projects at a time when the unit was not</td>
</tr>
</tbody>
</table>
Source: field study (2014)

There was a wide array of responses to this question. All in all, the responses do show that centralisation of treasury was paramount to the strategic business units which were facing serious challenge with inadequate working capital, resulting in poor performance and were facing viability and operational challenges. In particular, responses from business units which were not performing well show that they could not meet their day to day operating expenses as mentioned by one respondent, the generation of hard cash was inadequate for the company and centralisation helped in the managing of day to day activities and that also helped for the survival of strategic business units which had to be retained for strategic purposes, despite them not performing well. The respondents also unanimously concurred that the centralised treasury approach had other advantages such as increased borrowing capacity, improved risk profile, lower interest rates as well minimisation of working capital deficits within SBU’s through resources sharing approach from corporate treasury.

Indeed Respondent 8 stated that “our business unit benefited in the purchase of equipment which cost US $300,000 of which the business unit alone could not afford to buy on its own”. Furtherance, respondent 5 appreciated that through centralisation of treasury, payment of salaries in the Group was now uniform and timely across divisions and that has motivated employees.

4.4.3 The negative benefits of having centralized cash management

Respondents were asked about the negative benefits brought by having centralised cash management of the organisation. The table below summarises the responses from each respondent.
Table 4.4. Disadvantages of Centralisation

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>There are human inefficiencies in the resource mobilisation and deployment from a centralised approach.</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>It is extremely difficult for central management to appreciate performance of organisational business units.</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>SBU do not have control over working capital allocations.</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>Lack of in-depth knowledge of SBU dynamic needs in business which requires adequate funding and timely attention</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>The deployment of resources to strategic business units is slow</td>
</tr>
<tr>
<td>Respondent 6</td>
<td>The deployment of resources to strategic business units is slow</td>
</tr>
<tr>
<td>Respondent 7</td>
<td>Having to compete with other SBUs for limited resources and justify your cause, which in most circumstances are not considered</td>
</tr>
<tr>
<td>Respondent 8</td>
<td>The deployment of resources to strategic business units lacks transparency</td>
</tr>
</tbody>
</table>

Source: field study (2014)

The findings show that whilst centralisation was appreciated as important, its main disadvantage is that it leads to slow or late deployment of resources and the system lacks appreciation of SBU's dynamic needs thereby allocation lacking transparency.
For instance, respondent 4 and respondent 6 stated out that there were cases when they wanted to buy equipments but could not get the cash in time. In addition, the respondents complained that they were not allowed to choose the suppliers of their own and ended up buying equipment which did not meet their expectations. Additionally, respondent 3 mentioned that their business unit had to suspend other projects so as to fund other strategic business units and that demotivated most of the staff. This of course is contrary to literature were the authors advocate that the firm should exploit the available resources and competences for successful diversification (Johnson and Scholes, 2002).

4.4.5 The efficiency of the centralisation strategy on Cash inflows (Accounts receivables) and cash outflows (Accounts payables)

The research also sought to have a deep understanding of the efficiency of the centralisation strategy on both cash inflows and cash outflows. The responses are tabulated below:

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>It is efficient on cash inflows only</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>Cash inflows are now huge but on cash outflows it is not efficient.</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>It is efficient on cash inflows.</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>It is efficient on cash inflows only</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>It is efficient on cash outflows</td>
</tr>
<tr>
<td>Respondent 6</td>
<td>It is efficient on cash inflows only</td>
</tr>
<tr>
<td>Respondent 7</td>
<td>It is efficient on cash inflows only</td>
</tr>
<tr>
<td>Respondent 8</td>
<td>It is efficient on cash inflows only</td>
</tr>
</tbody>
</table>
From the above findings, the majority of the respondents believed that centralisation is efficient in controlling cash inflows of the group. It is argued that cash flows in health institutions should be centralised so as to exercise market power and obtain products at a lower price than many strategic business units of smaller quantities. However, those who favour decentralised cash inflows point out that the inefficiencies and delays of central purchasing mean supplies often arrive long after they are needed and that SBUs’ purchasing could provide products on time (Altman, 2006). Thus, according to Cooper (2005), decentralised cash outflows should be allowed to some choice over procurement with central budgets funds especially on low costs products.

4.4.6 Explain, in your opinion, if you think this strategy has assisted PSMI in the following:

This was a probing question, and according to the research findings 60% believed that centralisation assisted the organisations in capital management, 70% pointed out that it helped in financial risk management. However, the majority (90%) did not see centralisation important in managing foreign currency. Additionally, 80% of the respondents believed that centralisation was important in the creation of economies of scale. The findings are summarised below:
From the above findings, it can be inferred that centralisation helped the organisation in a number of areas including working capital management, creating economies of scale and managing financial risks. However, centralisation was seen as unimportant for the organisation in access to financing and foreign exchange management. The findings are in line with findings by Seuring and Goldbach (2002) which showed that centralisation of treasury result in economies of scale and make the coordination of organisational strategies simpler. As a result, there will be no distrust between the central department and strategic business units which may undermine corporation. In addition, centralisation also helps in the expansion of strategic business units and the consolidation of finance. The findings are also in line with studies by Bossert and Beauvais (2007) which showed that putting functions such as accounts payable and accounts receivables under one roof would eliminate redundant activities and help keep the organisation working capital.
4.4.7 Group’s liquidity position
The research also sought to establish the position of the group regarding its liquidity status. The findings are tabulated below:

Table 4.6: Liquidity Management

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>Poor</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>Poor</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>Good</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>Poor</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>Poor</td>
</tr>
<tr>
<td>Respondent 6</td>
<td>Poor</td>
</tr>
<tr>
<td>Respondent 7</td>
<td>Poor</td>
</tr>
<tr>
<td>Respondent 8</td>
<td>Poor</td>
</tr>
</tbody>
</table>

Source: field study (2014)

From the interviews findings, the majority of the respondents elucidated that the liquidity position of the organisation was poor due to a mismatch between the increasing revenue and reduced collection of debtors, putting pressure on operations. Only one respondent said that the liquidity position of the organisation was good. This might be due to the fact that the respective strategic business unit was performing quite well compared with other subsidiaries.

However, one of the respondents said that:

“The Group is facing liquidity challenges due to long debtors settlements periods of above 120 days against creditors days averaging 30 days ..............”
The above findings are in congruent with the current economic environment affecting the whole country where most companies are suffering from chronic liquidity problems thereby fuelling fears of contagion and systemic risks (RBZ Monetary Statement 2013). The country witnessed the closure of Barbican Bank, among others due to lack of liquidity (Chagwiza, 2012). In addition, the country’s money supply growth has remained constrained due to the dollarization and this has impacted negatively on the velocity of the money supply in the whole economy (Hanke, 2011).

4.4.8 Role of the divisional Finance manager in the group, in relation to the centralized financial resource strategy
The research also sought to understand the role of the strategic business unit finance managers in relation to the centralised financial resource strategy. The responses from the interviews are summarised below:

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>The finance manager is responsible for resource mobilisation.</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>His role is very minimal</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>Consolidation of financial information of the business unit</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>Consolidation of financial information of the business unit and effectively communicate with central treasury</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>Consolidation of financial information of the business unit</td>
</tr>
<tr>
<td>Respondent 6</td>
<td>It is expected that they monitor financial</td>
</tr>
<tr>
<td><strong>Respondent 7</strong></td>
<td>Consolidation of financial information of the business unit</td>
</tr>
<tr>
<td>------------------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Respondent 8</strong></td>
<td>Their role is to mobilize resources and effectively deploy to the needs of the business</td>
</tr>
</tbody>
</table>

**Source: field study (2014)**

The responses outlined in the table above indicate that most of the finance managers are only involved in the consolidation of financial information of the respective business unit required by the central finance. The findings do show that the involvement of strategic business units in the company’s strategic finance decisions is very minimal. This was corroborated by respondent 7 who mentioned that:

> “The divisional Finance department collect revenue for the organisation but their role is very minimal in relation to finance resource mobilisation and deployment......”

From the findings, it can be inferred that the company uses the top down approach in the implementation of financial decisions. This is in contrast with the studies by Rogerson (2007) which identified that organisations should adopt a bottom up approach in order to be competitive and effective. Business strategy gurus McGrath and King (1996) also concur that the most fundamental element that has a positive impact on a company’s growth is the depth of human capital.
4.4.9 What is quality of information provided by the divisions to assist the central office in decision making and making accurate and precise financial decisions?

The study also sought to have an understanding on the quality of information provided by various business units of the group. Specifically, the research sought to understand how the data would help in decision making. The findings are tabulated below:

Table 4.8 Quality of Information Provided by Strategic Business Units

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>The information is accurate but it can be late and untimely.</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>The information is accurate</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>The information is accurate</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>There is gap of quality of information provided both in terms of content and timing.</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>There is lack of integration of plans.</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>Information is accurate but not timely</td>
</tr>
<tr>
<td>Respondent 6</td>
<td>Information is accurate but can be late</td>
</tr>
<tr>
<td>Respondent 7</td>
<td>Information is accurate</td>
</tr>
</tbody>
</table>

Source: field study (2014)

The above findings do reveal that the information provided by the strategic business units is accurate and of high quality. However, the information though detailed enough; it will be the central operations that will have the final decision for resource allocation. It was also noted during the interviews that the information from strategic business units can be lately and untimely delivered. According to respondent 5, the untimely delivery of information can be due to:
“There is lack of integration of plans such as stocking, marketing, IT, HR into cash flow plans resulting in fire fighting cases sometimes”

4.4.10 What tools are used to measure efficiency of working capital and liquidity in the group?

During the face to face interviews, respondents were asked about the tools used by the organisation to measure efficiency of working capital and liquidity of the group as a whole. The findings are summarised below:

Table 4.9: Tools for Measuring Working Capital and Liquidity

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>There are no tools</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>There are no tools</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>Not sure</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>No tools</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>Not sure</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>Not sure</td>
</tr>
<tr>
<td>Respondent 6</td>
<td>Not sure</td>
</tr>
<tr>
<td>Respondent 7</td>
<td>Not sure</td>
</tr>
<tr>
<td>Respondent 8</td>
<td>No Tools</td>
</tr>
</tbody>
</table>

Source: field study (2014)

During the interviews, respondents were asked about the tools used to measure the efficiency of working capital and liquidity. The majority of the respondent’s professed ignorance about the tools used to measure liquidity. However, respondents one and two believed that there are no tools for measuring liquidity, though the central office monitors the allocation of resources. There are no tools used by the central treasury. This is because the organisation is too diversified to come up with any standard tools.
4.4.11 How well does the central finance office monitor cash outflows from the divisions

Respondents were asked on the efficiency of cash outflow monitoring by the central finance. The findings are summarised below:

Table 4.10 Management of Cash Outflows by Central Finance

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>Central office has guidelines for monitoring cash outflows from the division but there is also leeway for each SBU to manage its day to day activities.</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>It is monitored</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>It is monitored but not sure about that</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>It is well monitored because report templates and financial statements are produced monthly</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>It is well monitored</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>It is monitored through reports sent to head office</td>
</tr>
<tr>
<td>Respondent 6</td>
<td>It is well monitored</td>
</tr>
<tr>
<td>Respondent 7</td>
<td>It is well monitored</td>
</tr>
<tr>
<td>Respondent 8</td>
<td>Resource utilisation is monitored</td>
</tr>
</tbody>
</table>

Source: field study (2014)

As shown from the above table, most of the respondents believed that the treasury well monitors all the cash outflows of the subsidiaries. Central office has guidelines for monitoring cash outflows from the division but there is also leeway for each SBUs
to manage its day to day activities. Thus, the central treasury effectively monitors the outflows of cash from the group’s subsidiaries.

4.4.12 Centralized treasury may create financial redundancy in the divisions where there is lack of cash governance, poor collection skills, and over reliance of corporate financial support, what is your comment with regards to PSMI subsidiaries?

Table 4.11 below summarises the findings on the financial redundancy of the group’s strategic business units.

Table 4.11 Financial redundancy in PSMI Divisions

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>Some subsidiaries do not show any urgency in debt collection.</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>There is complete redundancy as subsidiaries know that salaries come from central treasury</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>There is no redundancy because subsidiaries have the mandate to collect 20% of the non Psmas debtors</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>There is redundancy by SBUs</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>There is redundancy in SBUs</td>
</tr>
<tr>
<td>Respondent 6</td>
<td>There is lack of urgency from some SBUs</td>
</tr>
<tr>
<td>Respondent 7</td>
<td>there is redundancy</td>
</tr>
<tr>
<td>Respondent 8</td>
<td>There is no redundancy because subsidiaries should manage their financial matters.</td>
</tr>
</tbody>
</table>

Source: field study (2014)
The responses outlined in table above indicate that the strategic business units are somehow redundant in terms of the collection of revenue where they now rely much on central treasury. All the respondents unanimously agreed that the strategic business units now rely much on central treasury and are no longer interested much in the revenue collection. Respondent 2 thought that the strategic business units should be made to work and collect the accumulating debt. This was because all the salaries are paid from central treasury and hence there is no pressure for performance. In addition, respondent 5 noted that there was vigour in resource mobilisation when each strategic business unit had to fund for its own salaries just after dollarization when centralisation had not been introduced.

### 4.4.12 What Influences Resource Allocation In The Group?

Respondents were asked about factors influencing resource allocation in the group and the findings are tabulated below:

**Table 4.12: Factors Affecting Resource Allocation**

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>There is prioritisation of performing projects.</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>Nature of business and its strategic position in the group</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>The Groups growth strategy.</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>Positioning of SBU in the group, e.g. retail group, despite lower margins will be prioritised over services group.</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>There is prioritisation of projects that support the group’s growth strategy.</td>
</tr>
<tr>
<td>Respondent 6</td>
<td>There is prioritisation of performing projects.</td>
</tr>
</tbody>
</table>
All the respondents echoed that the position of the subsidiary and there is largely the prioritization of performing projects largely influenced resource allocation by the central treasury.

4.4.13 Does PSMI employ project appraisal techniques for project selection financing and why?

The research also sought to understand if there project appraisal techniques used by the organisation in selection and financing. The findings are summarised below:

**Table 4.13: project appraisal techniques**

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>No project appraisal techniques are applied, more of board directives are taken for projects</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>No project appraisal techniques used but decisions are made.</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>There are no project techniques used</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>No project techniques used</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>It’s a bit haphazard here</td>
</tr>
<tr>
<td>Respondent 6</td>
<td>There is no initial group identification</td>
</tr>
<tr>
<td>Respondent 7</td>
<td>Some payback periods for the projects are long</td>
</tr>
<tr>
<td>Respondent 8</td>
<td>No project techniques used</td>
</tr>
</tbody>
</table>

Source: field study (2014)

The respondents were asked if there were any project appraisal techniques applied to select projects to finance and the majority of the respondent’s concurred that they
were not aware of any conventional project appraisal techniques, but they were more of board directives to fund identified projects. Respondent 5 said:

“Things are haphazard here, really corporate does not apply techniques to measure payback periods, measure the projects NPV and the returns etc, rather they invest sometimes without consulting the business drivers of the feasibility of that investment...”

4.4.14 In your Opinion, what is the level of participation of subsidiary heads in resource allocation, is there no information asymmetry

The research sought to understand the level of participation of subsidiary heads in resource allocation. The findings are shown below:

Table 4.14: Level of Participation of Subsidiaries

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>There is no participation, decisions are passed down</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>No participation</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>There is information asymmetry because subsidiary heads are not participating in resource allocation</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>They may participate, but do not have final position</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>It’s a bit haphazard here, sometimes may influence how resources are allocated, but sometimes not.</td>
</tr>
<tr>
<td>Respondent 6</td>
<td>Participation is not there because there is no platform to discuss the allocation</td>
</tr>
</tbody>
</table>
The respondents concur that there is lack of participation of subsidiary heads in resource allocation, or in capital allocation decisions. There is a top down approach of financial decisions in the group. This is contrary to Guido and Raith (2006) who say that, despite the CEO having the authority to allocate resources between the divisions, to do so efficiently, he needs to know about the production possibilities of the divisions to achieve allocative efficiencies.

### 4.4.16 Does the group have adequate technological support to enhance the centralized treasury system.

The study sought to establish the adequacy of technological support to enhance the centralised treasury system. The findings are summarised below:

**Table 4.16: Technological Support**

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>The technological support is poor as there is no Management Information system to support timely decision making</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>There is poor technological support; decision making is dependent manual consolidation systems.</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>Not sure</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>The Management Information system is weak and not supporting centralisation which requires timely information</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>No systems in place</td>
</tr>
</tbody>
</table>
4.5 PART B- CENTRAL TREASURY DEPARTMENT RESPONSES

Face-to-face interviews were also carried out with staff from PSMI central treasury department. These managers have been employed by the organisation for a minimum of five years. Information from this level of the organisation was important because it is at this level that formulation of strategy takes place. The questions posed to these respondents are shown below.

4.5.1 Reasons for adopting a centralized treasury management strategy
Respondents from the central department were asked about the reasons for adopting centralised treasury management. The responses are summarised in the table below:

<table>
<thead>
<tr>
<th>Respondent 6</th>
<th>Poor systems in place</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 7</td>
<td>The technological support is poor</td>
</tr>
<tr>
<td>Respondent 8</td>
<td>No systems in place</td>
</tr>
</tbody>
</table>

Source: field study (2014)

The responses above indicate that the Group does not have adequate technological support to ensure the treasury functions is supported by real time quality information which aides effective decision making. Forester (2000), argues that the rapidly evolving technology is one of the reasons why treasury’s role is expanding a more intensive management of working capital and bringing about many implications for the way business is done To survive in the new economy, there has to be convergence of technology, sound conventional business sense and an attempt to understand and assist customers (Emmett, 2002).
Table 4.17: Centralisation of Treasury

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>To match the group’s growth strategy which required redistribution of resources between SBUs despite their performance and ensure the growth model is sustainable and achievable.</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>To ensure uniformity between SBUs from systems , processes , and business management principles, which differed based on management styles which of respective divisional heads.</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>To ensure survival of Subsidiaries who were not generating enough revenue to cater for their operating costs, and since the group had adopted a growth business model, centralizing treasury was the best option</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>To take advantage of the synergetic advantages of the group and ensure survival of each SBUs, despite their financial position, some which were making losses.</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>Survival of the strategic business units</td>
</tr>
</tbody>
</table>

Source: field study (2014)

The above findings from the interviews showed that centralisation of treasury by management was meant to maintain the survival of the strategic business units, especially those not performing well. For instance, the need to have a growth model is sustainable for the organisation was mentioned as important by the respondents and this has also been discussed as critical for an organisation by scholars such as Chapman (2007). Thus, it can be inferred that the need for long term survival of the
organisation can be the reason why centralised treasury was adopted as company’s priority.

The findings can be an indication that there is a strong focus by the organisation on centralisation of treasury management system. This may have been fuelled by the need to monitor and evaluate strategic business units and this helps in overcoming information asymmetry and assessing the performance and activities of strategic business units (Christopher, 2005). However, according to Bossert (2007), centralised treasury department may also allocate resources according to a needs based formula resulting in varying degree of equity. For instance, central funds can be used for the purchase of critical equipment and services and departments can be allowed to compliment central funding. This influences the adequacy of resources available and the equity of resources among departments. Many scholars advocating for centralised treasury posit to the benefits of having standardised systems at all departments within the organisation.

4.5.2 Positive Benefits of having centralized cash management

The respondents were asked about the benefits of centralised cash management and their responses are summarised below:

Table 4.18: Benefits of Centralisation

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>Increased borrowing capacity and improve on risk profile Ensure timely payment of critical expenses such as salaries, previously different subsidiaries were having different pay dates which created disharmony among employees</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>Ensure there is creation of economies of scales when purchasing goods and services</td>
</tr>
</tbody>
</table>
services. Allows for financing of common expenses collectively, which benefit the whole group, i.e. Human resources, IT, Audit, Marketing etc.

**Respondent 3**

Ensure efficient collection of critical debtor payments such as PSMAS and resultantly allow payment of critical expenses such as salaries, timeously.

**Respondent 4**

To allow Group to manage working capital collectively as the nation was facing liquidity challenges, and managing working capital at SBU level will deter the group’s growth business model.

**Respondent 5**

Ability to understand the Groups businesses better as Corporate is actively involved in business activities.

**Source: field study (2014)**

From the above responses from five respondents, a number of advantages were perceived as important. The advantages include increased borrowing capacity, efficient collection of debt, creation of economies of scale and efficient management of working capital. Empirical studies in centralised treasury in Chile, Bolivia, Colombia and Nicaragua (Bossert 2000) showed that centralised treasury contributed to the financial equity and efficiency of the health systems of organisations under study. This is corroborated by Abrahamsson, (2002) who posit that in order to have economies of scale, organisations should be centralised. Many scholars advocating for centralised treasury state the benefits of having standardised systems at all departments within that organisation. According to Barber et al. (2005), uniformity makes it easier for uniform quality and training of personnel could then be tailored to meet specific choices and implement other organisational policies. Interestingly centralised treasury has received attention among scholars such as Aronsson and Huge Brodin (2006). According to Mattson
(2002), centralised treasury structure leads to decreased costs and also increased customer service levels and these includes economies of scale, savings in learning, reduction in the bullwhip effect and reduced material shortage and obsolete material, easier product flows through centralised warehouses and decreased costs of transportation.

4.5.3 Negative Costs of having centralized treasury management

The research also asked about the disadvantages of having a centralised cash management system. The findings are tabulated below:

Table 4.19: Costs of Centralisation

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>Takes long to consolidate information as the group has no system for efficient collection of information</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>Inability to satisfy the demands of the competing SBUs for financing, sometimes creating feelings of unfairness</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>Lack of a Management Information system that makes decision making accurate and fast, currently relying on report templates which are manual</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>Poor flow of information, which sometimes is not accurate, compromising on the quality of decision making made by corporate office</td>
</tr>
</tbody>
</table>

Source: field study (2014)

The respondents from central treasury department were asked about the negative costs associated with having a centralised treasury management system. The most common denominator was that the organisation faced poor flow of information from
strategic business units, takes long in the consolidation of information and failure to meet the demands by strategic business units. Comparing the identified above factors with other researches, a comparison can be made with Björklund (2011), who pointed out that with centralised treasury there is no strategic business unit choice for all financing and strategic business units funds are not allowed to compliment this source. In addition, studies by Bodin, (2000) in Nicaragua hospitals found that if all financing comes from centralised treasury there is no SBU choice. The above findings also coincide with the claim made by McKinnon (2003) that high centralisation lead to likely increase in the amount of costs generated by the distribution system. Isaksson (2012) also found that the largest challenges for centralisation of treasury include high logistics costs and sometimes uncertain payback periods.

The research findings also corroborate with studies by Alberto, (2005) which showed that centralised budgets are too restrictive for divisional variations and for effective and flexible treasury management. Thus, strategic business units fear that they will not make appropriate choices for priorities. In addition, central treasury often assign ceilings based on historical budgets and make the final decisions on the actual budgets with little or no department officials (Ernst and Whinney, 2004). Furthermore, central budgets are rigid and allow no flexible expenditures by strategic business units.

4.5.4 The efficiency of Centralization on Cash Inflows and cash outflows
The research also asked about the efficiency of centralisation on cash inflows and cash outflows. The findings are illustrated below:
Table 4.19: Efficiency of Centralisation

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>Efficient on Cash inflows, central collection of huge Debts. Efficient on cash outflows as resources are strategically placed.</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>The system is efficient on both inflows and outflows, primarily because corporate office can cohere collections and strategically place funds were they are required, in an objective to achieve the organization growth strategy</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>Efficiency is definitely on Inflows, on outflows its subjective because, some cases central treasury priorities are not in sync with expectations from SBUs</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>The system is efficient yes, both on Inflows and outflows</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>On inflows the efficiency has been recorded, but on outflows, there is risk of resource diversion to other projects and costs perceived strategic, but not beneficial to the Subsidiaries on the ground</td>
</tr>
</tbody>
</table>

Source: field study (2014)

The responses outlined in table above indicate centralisation of treasury is efficient on cash outflow and inflow management by the PSMI. In particular, this has helped the organisation, in risk diversion, and the collection of debts. All the respondents thought that there was good for the organisation because the business operations continued to run. Responded 5 also commented that the foreign currency generated also kept operations running.
4.5.5 Role on divisional Finance Manager to the centralized strategy

The research findings on the role of the finance manager to the centralised treasury are tabulated below:

Table 4.20: Functions of Divisional Finance Manager

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>Their role is resource mobilization and effective deployment to the needs of the business</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>To effectively communicate financial needs of the division to corporate office for effective resource deployment</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>It is expected that they monitor financial exposures of the division and inform the corporate office timely</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>To inform central treasury on the needs of their business</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>inform central treasury on the needs of their business</td>
</tr>
</tbody>
</table>

Source: field study (2014)

The respondents from central treasury indicated that the role of divisional finance managers was largely functional rather than in the formulation of organisational decision making in issues pertaining centralisation. In particular, respondents 1 and 2 believed that the role of divisional finance managers were to convey only financial needs of the strategic business units as well as helping in mobilisation of resources. As such, the divisional finance managers cannot make costs recovery strategies since they do not have autonomy to make decisions at the strategic business level. Studies by Harrison and Remko (2003) do show that to maintain incentives for collection divisional finance managers should participate and ensure that the funds are used for departmental priorities. On the other hand, decentralisation of organisational strategic financial issues has the benefit of allowing strategic business units to take into considerations local conditions quickly (Lapin, 2007). In addition, Vogt, et al. (2007) believes that an increased role of divisional finance
managers can lead to increased forecasting depending on the capacity of skills of departments to perform these tasks.

4.5.6 Does the group have adequate technological support to enhance the centralized treasury system?

Table 4.21: Technological Support

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>The MIS system is weak, currently relying on templates for information collection, and then consolidate, which may create room for errors</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>There is no adequate technological support, and MIS system would be ideal</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>Poor technological support</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>At subsidiary level there is technologies to use I financial management, but at corporate level, there is not integration of the subsidiary systems</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>There is no adequately functions Management information systems</td>
</tr>
</tbody>
</table>

Source: field study (2014)

As shown in the above table, all the respondents concurred that the organisation’s technological infrastructure was not adequate enough to enhance centralised treasury management system. These technological support include both software and hardware systems. The findings are contrary to findings by Barney (1999) who states that technology is important in deciding the centralisation of treasury systems. Arguments against centralised treasury forecasting stress the lack of capacity of information system to provide information on stock outs and utilisation in a timely fashion to central treasury Abrahamsson, (2002). This is supported by Davidson and Patel (2003), who argues that technological information systems in developed
countries usually have the capacity to provide the centre with sufficient timely information such as Wal-Mart but in most developing countries this is still very low.

4.5.7 What influences resource Allocations in the Group

Table 4.22 below summarises the factors which influences resources allocation in the group.

**Table 4.22: Resource Allocation**

<table>
<thead>
<tr>
<th>Strategic business unit</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent 1</td>
<td>Resource allocation follows business strategy and key cost drivers for SBUs</td>
</tr>
<tr>
<td>Respondent 2</td>
<td>The business structures of respective SBUs and their synergetic flow effect as others have higher cost of sales than others, other subsidiaries more capital intensive than others, their capacitation allowing business to flow to other subsidiaries.</td>
</tr>
<tr>
<td>Respondent 3</td>
<td>Nature of business and the needs</td>
</tr>
<tr>
<td>Respondent 4</td>
<td>The groups growth strategy influence resources</td>
</tr>
<tr>
<td>Respondent 5</td>
<td>Many factors, but largely the business needs and the structures of their business models</td>
</tr>
</tbody>
</table>

Source: field study (2014)

The respondents indicated a number of factors which influences the allocation of resources in the PSMI Group. Among the factors mentioned include nature of business, and the organisational needs.
4.6 Chapter Summary

This chapter was mainly concerned with reporting the research findings and discussing these findings, their implications and link to literature. This chapter was initiated by analyzing the samples which were under consideration. The demographics of the data samples, distribution of the interviews and the final response were presented in a table and a graphical format. The responses obtained for each respondent was then illustrated. The composition of the respondents was then briefly introduced. A detailed illustration of responses according to the different responses was given and finally all findings were presented in a summarized format.
CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The chapter presents and discusses the main findings from the conducted study. The main objective of this chapter is to offer an overall conclusion to the research findings of the study. The conclusions are based on the findings and data analysis conducted in chapter 4. These findings connected to each research question will be discussed extensively in the first section. The final section of the chapter will cover implications for future research.

5.1 Achievement of the objectives

The main purpose of the research was to establish the effectiveness of a centralized cash management system on business operations, a case of PSMI Group. The conceptual framework of the study was built on existing theories on centralisation and decentralisation of treasury management system. In the literature, centralised, decentralised and hybrid treasury management systems were discussed as important for health services companies. The theoretical framework offered related theories within definitions of centralised treasury strategies, so as to guide the research design.

The findings of the study were based on a case study research design, and hence the purpose was not to generalize the findings to a larger population. Some of the
factors discussed behind the use of centralized treasury management system by the company, costs associated with the current treasury management system of the company, establishing how centralized treasury management system affects the flow of goods and services along the company’s business units and drawing strategic conclusions on centralised treasury management for the organisation.

The study used a case study research design to collect primary data was collected using in-depth interviews for management and employees of PSMI strategic business units and central treasury in Harare. Views of respondents, mainly management staffs were revealed that centralised treasury do have impact on the functioning of strategic business units. Based on the main research objective four research questions were formulated and the findings are discussed below with respect to research questions.

5.1.1 Research question 1. What are the factors behind the use of centralised treasury management by the company?

The main focus of the first research question was to understand the factors behind the use of centralised treasury management by PSMI Group. As was discussed in the literature review, results from this study indicate that the company adopted centralised treasury management system to ensure the company’s survival under an increasingly challenging business operating environment. In particular, the findings showed that the company adopted centralisation which created the need to ensure survival and this led to centralisation of treasury systems to ensure working capital efficiency and manage the company’s capital liquidity. Literature also revealed that centralised treasury can is important in improving treasury management efficiency, streamlining account structure and improve cash liquidity management in times of crisis Collingridge and Margetts, (2004). Empirical studies by Hayward (2004) also shows that centralisation of treasury reduces organisation’s transaction costs. The benefits of centralisation have also been recognised by most American and European companies of all sizes. For instance, studies by Sakagami (2005) elucidates that due to uncertain financial environment, rising costs, volatility
of risk and expensive financing, the value of centralisation cannot be underestimated.

5.1.2 Research question 2. What are the costs associated with the current treasury management system of the company.

The interview findings from both strategic business units and central treasury revealed that centralised treasury has a number of disadvantages to the companies. According to the findings, the main disadvantages of centralisation were that it led to slow or late deployment of resources. In addition, the respondents revealed that centralisation did not appreciate the SBUs dynamic needs and operations. In addition, the findings revealed that because of centralisation respondents strategic business units could not choose their suppliers of their own. Empirical literature also showed that centralised treasury is uniquely ineffective as resource allocators. This is because the central treasury department of an organisation can’t allocate resources according to the true state of supply and demand. For instance, capital, time and labour are allocated based on the planners’ preferences rather than the preferences of the wider business units of an organisation. This is also corroborated by studies by Dietrich and Vollmer, (2010) in Turkey in the banking sector which revealed that centralised systems tend to be both fragile and mistake prone for other departments or strategic business units.

5.1.3 Research question 3. How does centralised treasury management system affect the flow of goods and services along the company’s business units?

The study findings acknowledged that centralised treasury to a greater extent affect the flow of goods and services along the company’s business units. The findings did show that finance managers for strategic business units are only involved in the consolidation of financial information. In addition, the flow of goods and services
along the strategic business units and central treasury is affected by the poor technological support to the treasury structure thereby making decision making slow.

5.1.4 Research question 4 What are the strategic conclusions on centralised treasury management for the organisation?

As described in the literature, findings from this study indicate that both centralisation and decentralisation of treasury management have its own merits and demerits. Despite its advantages, the respondents both from strategic business units and central treasury echoed that centralisation has its advantages and disadvantages for PSMI as a group. There is no perfect answer to the question of what is the optimal structure for a corporate treasury. Baker (1993) and Dunn and McCarthy (2007) concur that the implementation of a hybrid structure that takes the best of centralised and decentralised treasury structures and allows for the tailoring to the specific needs of the organization. Thus, the hybrid approach can offer full cash visibility across an entire operation, spanning geographic locations, time zones and offices, while providing local and regional support. As such, it is important for the organisation to have a hybrid approach to treasury management system. This would help in allowing some company decisions to be made centrally and some decentraly. For example, some financial orders can be made centrally and others can be processed decentraly. Considering that the majority of the respondents had high educational qualifications, it is most probable that they do have the necessary skills to manage a decentralised treasury management system.

Conclusions

Based on the primary data findings of the research, the researcher warrants the following conclusions:
• From the findings, it can be concluded that the company adopted centralisation after facing a challenging operating environment which needed the company to adopt survival mode. Thus, centralisation is effective when a company wants to survive economic challenges or other operational costs. In particular, it can be concluded that in terms of costs, centralisation of treasury also reduces transaction costs and help liquidity.

• It can be concluded that the strategic business units had personnel qualified enough to understand the needs and expectations of their respective divisions in terms of decentralisation and centralisation of treasury. Thus, their contributions for the growth of the organisation should not be neglected.

• It can be concluded from the findings that centralisation has its benefits for strategic business units and these include creating a means to monitor and control SBU operations, increased borrowing capacity, improved risk profile, lower interest rates as well minimisation of working capital deficits within SBU’s through resources sharing approach from central corporate treasury.

• From the it findings, it can concluded that a complete centralised treasury system is important for a company facing economic challenges such poor liquidity, inflation, among others so as to manage resources efficiently and maximise economies of scale.

• The interview findings did reveal show that whilst centralisation was appreciated as important, the company lacked a supporting technology system that would allow for real time decision making. The system also lacks appreciation of SBUs dynamic needs thereby creating information asymmetry challenges and lack of financial allocation transparency.

5.3 Recommendations
The findings from this research have several managerial implications for the company, which include:
• The need to establish an efficient hybrid treasury structure which combines the positive benefits of centralisation and decentralisation.

• The company should have a supportive information technology system to complement effective decision making and resource allocation.

• The company should also create platform for interaction in resource mobilisation and deployment between corporate and subsidiaries to close the information gap and ensure transparency.

5.4 Further Research

The study was exclusive to PSMI Group and so it will be of profound advantage and interesting to have a comparative study of different companies in different sectors of the economy. Additionally, the findings of this study may also be different when conducted in other companies in different sectors of the economy. Therefore, it is suggested that the study be conducted in other sectors of the economy.

Furthermore, a longitudinal study may also be done so as to see the before and after results of implementing centralization of treasury management systems and this will offer vivid indication about the magnitude of the implications of centralization. Equally important, future research can be undertaken using mainly more quantitative than qualitative research methods. Hence, it would be of most interest to conduct a more-interpretive based research.
References


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32.


University of Technology.


92.


APPENDICES:

Appendix I

The Group Human Resources Director
Premier Service Medical Investments
56 Baines Avenue
Harare

06 December 2013

Re: Request to conduct an Academic Research/Case Study on PSMI

Compliments of the season

I hereby write to you kindly requesting for your permission and approval to conduct an academic research in partial fulfillment of a Masters Degree in Business Administration, under the University of Zimbabwe’s Graduate School of Management.

My research topic is “The effect of a centralized treasury management system on Premier Services Medical Investments business operations”, which will follow a qualitative approach to data gathering, i.e. the use of In-depth Interviews with key informants in the group.

For ethical considerations, I personally commit that the information collected will be purely for academic purposes and confidentiality and anonymity will be carefully observed.

Once the research is concluded, I will gladly provide a copy of the findings to your office for the Groups information and source of reference for further similar studies.

Yours sincerely

_____________________
Tafadzwa Chisveto

Cc. Mr V Chaipa (Group Finance Director)
Dr A Chidakwa, (Mentor)
Appendix II:

INTERVIEW GUIDE-SBU STAFF

Researcher : Tafadzwa Chisveto R117044R

Research Topic : The effect of a centralized treasury management system on business operations: A case of Premier Services Medical Investments

Interviewer : Tafadzwa Chisveto

<table>
<thead>
<tr>
<th>Introduction Key</th>
</tr>
</thead>
<tbody>
<tr>
<td>I want to take this opportunity to thank you for taking the time to meet with me today.</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>I would like to talk to you about your opinions, perceptions and understanding of the effects of a centralized treasury management system on business operations in PSMI Group. A centralized treasury system can be interchanged to refer to a centralized cash Management, financial resources or working capital management, where an organization centrally control inflows of financial resources and also controls the outflows of cash and other financial resources diverting cash from where it is to where it is needed.</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>The interview should take less than an hour.</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>I will be recording the session using my iPad because I don’t want to miss any of your comments. Although I will be taking some notes during the session, I can’t possibly write fast enough to get it all down, thus the recording.</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>I would like to personally commit that all responses and recordings will be kept confidential and I will observe the right to ensure that confidentiality and anonymity of this session and NOTHING said by you will be linked to throughout this research process. This means that your interview responses will only for academic purposes.</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Are there any questions about what I have just explained?</td>
</tr>
<tr>
<td>Are you willing to participate in this interview?</td>
</tr>
</tbody>
</table>

Interviewee Code Signature Date