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The Strategic Treasurer: Custodian of Cash Flow and Financial Risk

An evergreen theme for publications about treasury is how the role of the corporate treasurer has become increasingly strategic and has grown in relative importance within organisations. However, whilst it is undoubtedly true that some people in the profession have reached a strategic position within their organisation, the evidence for a wholesale shift is more patchy and to some extent aspirational; few of these articles define what a strategic treasury is and even fewer back up their claim with evidence.

Analysis of the responses from participants to the PwC Global Treasury Benchmark Survey 2017 entitled The virtual reality of treasury[1] may shed some light on how far the profession has advanced. This article will explore to what extent treasury has become strategically relevant and how European companies differ from companies in other regions. Taking stock of the current situation may provide an understanding as to how wide the gap is between aspiration and reality and how that gap can be closed.

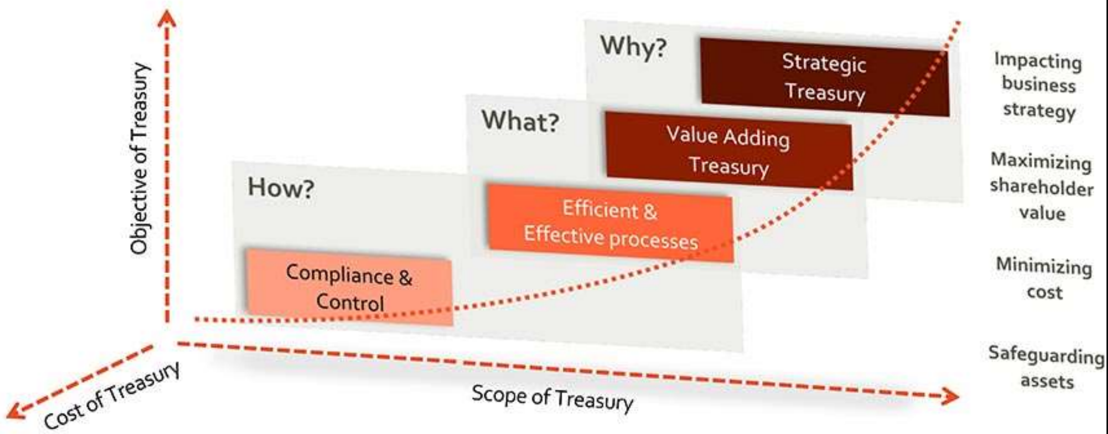
Notes

1 https://www.pwc.com/gx/en/services/audit-assurance/corporate-treasury-solutions/publications/corporate-treasury-benchmarking-survey.html All graphs are based on the benchmark data collected and for the purpose of this article we have filtered 214 responses of the data set available today most relevant and complete across European, North American and Asian companies. This data set includes new responses and exclude some that had been included in the survey published earlier this year. Therefore graphs may differ slightly from those published in the survey. The respondents demography is skewed towards Europe, as only 26 %and 10% are working for American and Asian companies. Also note that not all of the 70 questions had been mandatory.

Strategic treasury

Strategic treasury is typically the pinnacle of a treasury maturity model like the one PwC developed a decade ago (see figure 1). These maturity models are highly intuitive. But without clear definitions, the observer can put his own imagination to work. The more mature treasury becomes, the more benefit and value it can create.

Fig 1: The PwC Treasury Maturity Model



The advanced stage in the PwC Treasury Maturity Model is that of Strategic Treasury. At this stage the treasurer operates as custodian of cash flow and (financial) risk. He co-ordinates enterprise-wide processes and is no longer just the manager of a corporate department. He (or she) has become the trusted advisor and treasury expert to the business operations and executive management. At this stage treasury is involved in structuring business initiatives, looking after cash flow and (financial) risk. Treasury's involvement up front allows for pro-active detection and resolution of cash flow and (financial) risk issues and the implementation of best practice process engineering. Transaction processing is highly standardised and automated, and may already have been outsourced to a shared service centre that generates the reports used in managing (future) liquidity and exposures effectively. In summary the focus of a strategic treasury is on interacting with stakeholders and discussing the reasons for undertaking treasury transactions.

By contrast, less mature treasuries at the other three stages in this model, are characterised by a focus on perfecting the execution of treasury transactions. They tend to focus on the "how and what to do?" type of business questions.

Treasuries in the first phase are busy setting up processes from scratch and with the aim of avoiding losses, (regulatory) mistakes, penalties and fines. Typical projects at this stage include documenting processes, configuration of key treasury applications and e.g., basic cash and exposure reporting. More often than not processes are spreadsheet-based and highly manual.

Treasuries in the second stage are working on standardisation, centralisation of core treasury processes and pruning bank infrastructures. At this stage treasury typically selects treasury technology for the first time and explores basic forms of in-house banking and central finance structures.

Fig 2: Characterising the mind-set of treasury

Traditional treasury role (stage 1-3)		Strategic treasury role (stage 4)
Management of (head office) department	↔ ↔	Custodian of enterprise wide liquidity and (financial) risks Partner / Advisor to business and senior management
Centralisation as the preferred route to efficiency and effectiveness	↔	Outsourcing to and collaboration with (shared services) units best fit for the job as preferred route to value creation
Exposure management	↔	Exposure discovery
Available liquidity	↔	Future cash flow
Defined responsibilities and handshakes	↔ ↔ ↔ ↔	Value driven collaboration Supporting commercial pricing and procurement decisions New markets Commodity risk
Process execution excellence	↔ ↔ ↔	Business solution driven Project management mind set Automatic outsourcing to (internal) SSC based on SLA
Prime focus on cash, loans and some P&L items	↔	Focus on full P&L, balance sheet, working capital, WACC and financial ratios
Spreadsheet-based input and reporting	↔	Data integration driven reporting (BI tooling)

Treasuries in the third stage of the maturity model aspire to leading edge solutions. They focus on redesign of treasury processes and e.g,. integrating cash pooling, external and intercompany cash flow in an in-house bank operation, which for treasuries at this maturity level are often still run by corporate treasury.

Figure 1 is a maturity model in the sense that the benefit of a specific stage adds additional benefits to those created in the preceding stage. The value creation grows exponentially with the progression on the maturity model. It is not a maturity model in the sense that over time a treasury has to migrate to the upper right hand corner of the graph. The aspirational point on the maturity curve for a treasury depends on its objectives, scope and budget. Experience suggests that successful migration on the curve requires a high degree of correlation between these three dimensions: a strategic vision for treasury implies a wide scope and mandate as well as a sizeable investment in treasury processes. A more humble ambition can make do with a smaller scope and lower cost.

While up to and including the third stage maturing often implies further centralisation, the evolution into a strategic treasury is more radical and transformational. A strategic treasury's role goes beyond the management of delineated responsibilities. It assumes a pro-active and collaborative engagement with senior management and business functions aimed at advancing the strategic value of the organisation (see figure 2).

State of play

So, how far has the treasurer moved on the treasury maturity model in recent years? The evidence suggests that this is not as far as one might imagine. Treasurers are not highly aligned as to the topics that dominate the CFOs' agenda for treasury. Furthermore the top of the list is dominated with tactical and traditional topics that correspond with the stages 1 – 3 of our maturity model. The evergreen top priority of cash flow forecasting is mentioned as priority by only 50% of the respondents and the number 15 item of bank account management by 15% only (see figure 3).

The same dataset however also indicates that CFOs would like treasury to widen its horizons (see figure 4). Despite some notable differences between geographical location, there seems to be a high degree of consensus among CFOs that working capital (mentioned by 67% of all CFOs as opposed to 20% of treasurers), capital structure (64%, 21%), fraud (46%), and cyber security (39%, 20%) are high priorities for treasury next to more traditional treasury themes such as liquidity, FX risk, and funding. CFOs clearly expect treasury to play a more strategic role.

Having said that, the agenda for treasuries of European companies seems more often aligned with that of the CFOs than in other regions. However the data also suggests that European treasuries are more often challenged by their CFOs to make an effort to become more relevant and strategic.

Fig 3: Treasury's agenda

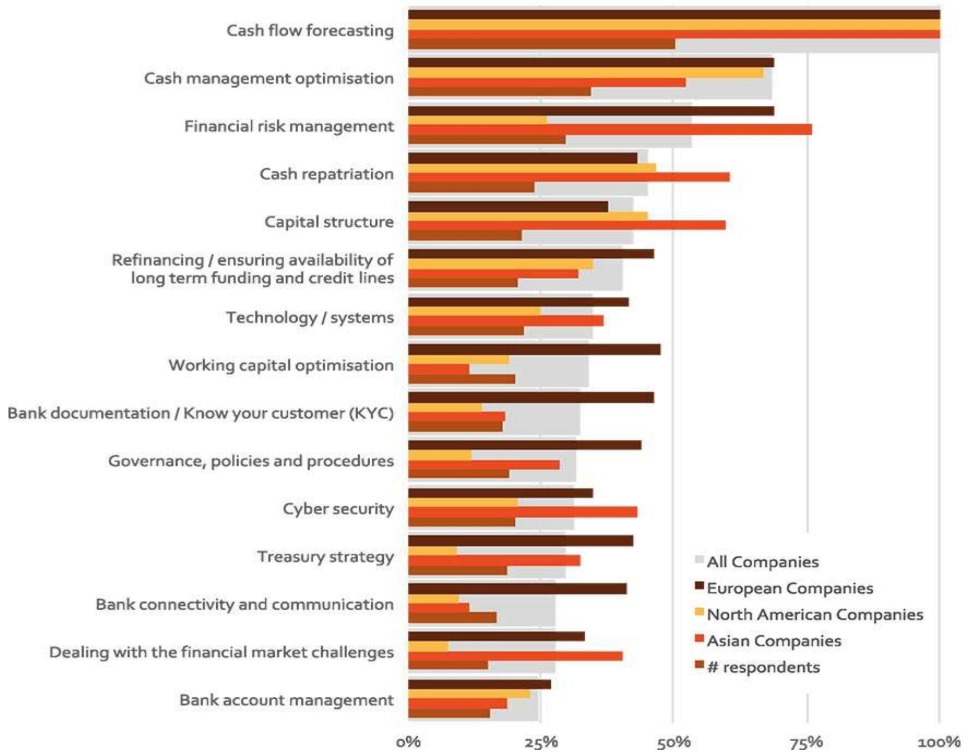
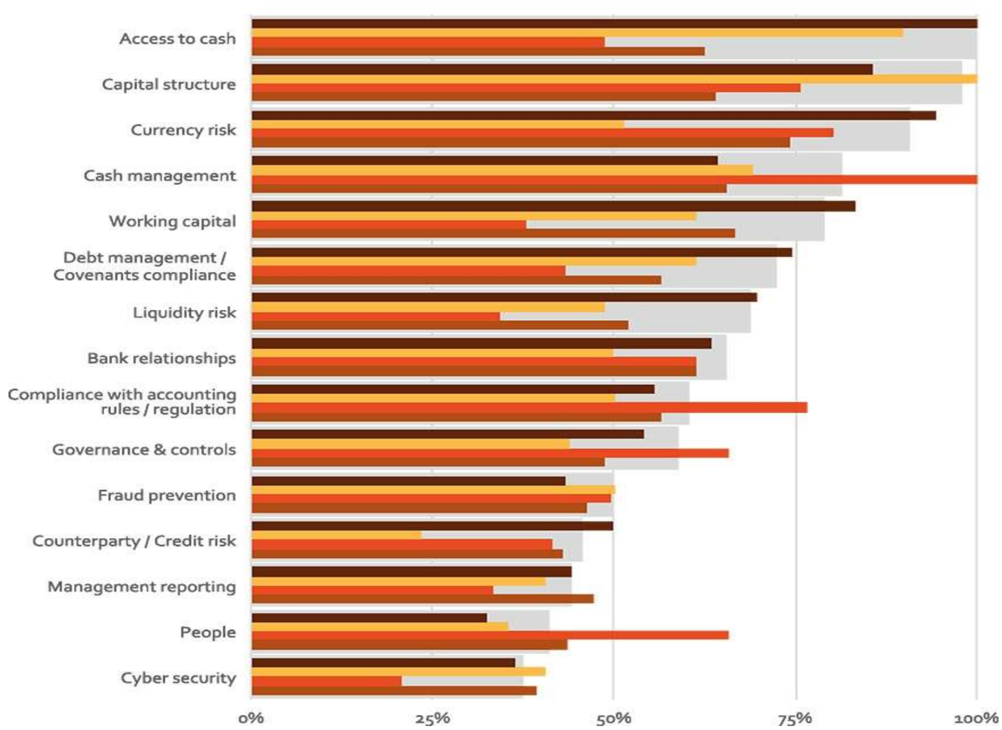


Fig 4: CFOs' treasury priorities



Mind the gap

These results clearly suggest that the executive level has set a wider objective for treasury but treasury finds difficulty in meeting the expectation. What is holding back treasurers – especially the harder pressed European treasurers – from closing the gap? Most probably the hurdle is a combination of 'operational drag', budget issues and mindset. Responses to other survey questions such as those related to cash flow forecasting and deployment of treasury technology suggest that treasury operations and the supporting technology are often not advanced and integrated enough to streamline and automate key treasury processes. This locks treasury resources and attention into routine activity such as chasing up input, re-keying and reconciling data from other sources. These observations reinforce the impression of many treasury professionals that much of their time is consumed in staying afloat and too little time is available for improvement projects.

Treasurers may find problems in overcoming 'operational drag' because of budget constraints. The harder pressed European treasurers in particular are bound by tight and flat budgets more often than their peers elsewhere (see figure 5). Consequently little time and investment can be afforded for resolving operational bottlenecks and thereby unlocking resources for treasury activities that yield more benefit.

Fig 5: Treasury budget outlook

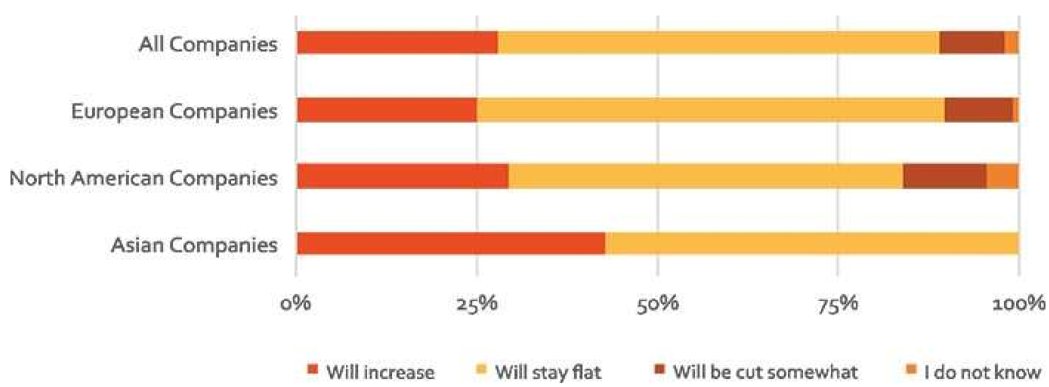


Fig 6: FTE in corporate treasury

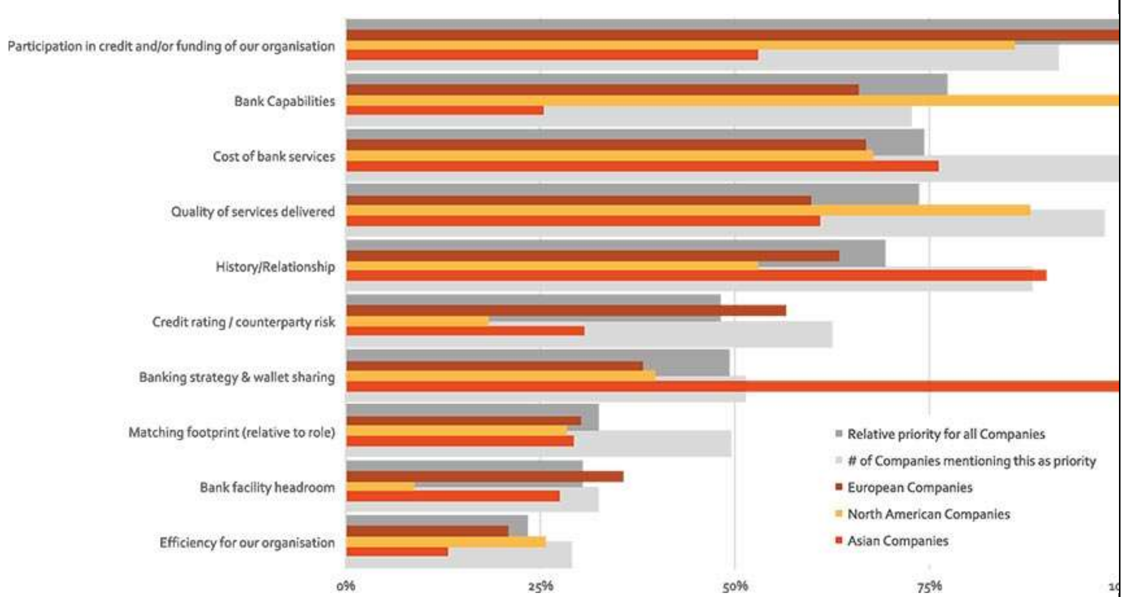
Call to action

The gap can only be bridged by either scaling down expectations or deciding to follow through on the (implicit) ambition. Common wisdom has it that nothing in life is handed to you on a plate. Following this logic, treasurers who feel caught between a rock and a hard place have to find a balance between scope, budget and mandate for treasury. They have to invest more in the acknowledgement that this gap exists, its implications, the potential of treasury when the gap is closed as well as a high-level implementation roadmap for the target operating model when different from today.

The path towards strategic treasury is certainly not paved and requires endurance. As explained above, it is transformational as it requires a new collaborative interaction with senior management and businesses. It requires a pro-active involvement at an early stage of enterprise projects even when it is not (yet) clear how treasury will be impacted. In other words treasury needs to move confidently beyond its current scope and mandate as the custodian of enterprise wide cash flow and (financial) risk.

Without additional budget this is a daunting task. Treasurers that want to migrate toward strategic treasury but are held back by budget constraints, may find shared services a natural ally. Treasury could tap into a different budget by offloading the execution back office and operational activities to (financial) shared services. Integrated solutions, proper SLAs and clear reporting and monitoring standards will safeguard timely and effective execution as well as adequate treasury information.

Fig 7: Bank relationship management drivers



Although plenty of horror stories are floating around about treasury and shared services, there are also a number of leading-edge successes. Successful migration to strategic treasury has also become more attainable as treasury software has matured in terms of in-house banking, transaction factories, trading and (bank) communication; shared services have become a more familiar business model in other parts of the financial sector and have become more stable operations.

At present a vanguard of treasurers have managed to transform their operation into a strategic treasury. The rewards and benefits are worth the effort. They will testify that it requires the mindset, a way of working ahead of the curve, to be successful.

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