Mighty Guides

Taking Treasury from Reactive to Proactive

Treasury Vision

Experts Discuss the Most Important Steps to Transform Your Treasury

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DOCUMENT YOUR TREASURY VISION

TOOLS AND INFORMATION FOR TRUE TRANSFORMATION

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Russell Hoffman has more than 15 years of treasury, financial instrument, and risk management experience in the corporate treasury and financial services industry. He works on numerous treasury advisory projects focused on governance, operations, controls, technology, accounting, and regulatory-driven processes, serving many of KPMG's largest audit and advisory clients.

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What does treasury want to be when it grows up? I ask clients that question when they engage KPMG to assist in transforming their treasury operations from being reactive to proactive. While light-hearted, it does have serious undertones:

- What should treasury's roles and responsibilities be?
- How should treasury be structured?
- How many people should be in treasury, and what types of experience should treasury team members have?
- Should treasury be centralized, local or regionalized in countries where the company does business, or both?

Treasury includes functions such as cash management, liquidity and cash flow forecasting and management of debt, investments, and risks—particularly risks associated with interest rates and foreign exchange. It is all extremely complex and data driven. Without good information and effective tools, true transformation can be very difficult.

I recently worked with a consumer products company that maintains a presence in 70 countries. Currently, the company's structure is decentralized without a well-defined central treasury department, and individual business units manage their own cash in a quasi-treasury fashion, with little coordination through headquarters. As a consequence, central treasury has poor cash visibility. The challenge here is to empower central treasury to set policies and procedures and dictate where and how cash moves throughout the company. To compound the challenge, treasury doesn't have the data, systems, or infrastructure to confidently transform itself: the process is still unfolding.

> "Without good information and effective tools, true transformation can be very difficult."

KEY LESSONS

1. DOCUMENT THE TREASURY VISION, STRATEGY, AND GUIDING PRINCIPLES BEHIND THE CHANGES YOU WANT TO MAKE.
2. EMPOWER KEY PEOPLE TO BEGIN THE DISCUSSIONS AND MAKE DECISIONS.

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The company has, however, taken several immediate key steps and has instituted an action plan that involves defining a new structure, roles and responsibilities, assessing staffing capabilities and procuring treasury technologies to enable cash visibility and more robust risk management.

Furthermore treasury management has done a deep dive into its global processes, investigating 10 key business units to understand their cash-management and other key procedures to identify risk exposure and determine what needs to be done to allow central treasury to eventually take control of cash management for those units.

> "The story has yet to be fully written, but I am optimistic about its chances for success."

Finally, the company is evaluating whether to augment central treasury by adding well-coordinated regional treasury sub-functions in North and Latin America, Europe and Asia, where differing languages and time zones make absolute centralization problematic.

The story has yet to be fully written, but I am optimistic about its chances for success. The company has:

- Documented its treasury vision, strategy, goals, and guiding principles;
- Taken action and empowered key people to begin discussions and make decisions; and
- Taken steps to ensure that treasury fully understands the business processes and procedures of the company and all of its individual units.

In effect, the company is doing everything to be serious about treasury transformation. These are the steps that companies must take if treasury is to cease being seen as just another service provider and instead be regarded as a full and active partner to the business.

TO BECOME PROACTIVE, TREASURY NEEDS A VISION

JEFF DIORIO

Managing Director,
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As part of Treasury Strategies' technology practice, Jeff Diorio manages treasury system selections, technology implementations, and vendor relationships. He has helped firms realize the benefits and efficiencies of treasury automation over his 25 years of experience with both treasury technology and global treasury operations. He has been very involved in the creation of hosted solutions and SaaS offerings in his time as a vendor. He speaks and writes regularly on treasury automation and risk mitigation.

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Prior to 2008, treasury was frequently viewed as the operational maintainer of corporate liquidity. The financial crisis highlighted treasury's role in global financial risk management. As a key player in the financial risk equation, it has the tools and knowledge to analyze and understand what currency, rate and counterparty exposures truly mean.

This added organizational recognition as a key enterprise risk player has expanded the mandate for many treasury organizations. Increasingly, treasury is being asked new kinds of questions that affect business operations outside of operational liquidity.

KEY LESSONS

1. IF TREASURY'S GOING TO HAVE A ROBUST ROLE IN THE ORGANIZATION, IT MUST TAKE CARE OF THE FUNDAMENTAL BLOCKING AND TACKLING OF WHAT THEY'RE RESPONSIBLE FOR.
2. TREASURY NEEDS TO HAVE A VISION FOR WHAT ITS ROLE IN THE ORGANIZATION IS..

The first thing a treasury must do to take advantage of this new respect and visibility is to establish its own goals. Simply put, every treasury needs a vision for its contribution and role in its organization.

Some companies just jump right into automating things that streamline operations with the idea that when that is done, they will apply themselves more strategically in their business. This is a mistake.

Treasury first needs that vision and road map – which envisions a treasury that is neither a cost nor profit center, but a "Financial Value Creation Center". With that in hand, it can decide what adds the greatest value to business operations, what foundational things need to change, what easy things can be done early on, and what big things are worth doing although they are complex.

> "The first thing treasury needs to do to become proactive and strategic in an organization is to establish the goal of its operations."

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Some answers may in fact involve automating operations, but others may involve restructuring how things are done in the business. For instance, some companies are moving commodity and insurance risk management into treasury. Treasury is also becoming more involved in working capital management and functions like P-card and receivables financing. Automation is not the starting point for changes like these, but it can help a lot after the restructuring decision. Once a treasury knows where it needs to go, then it can look for holistic approaches to increased efficiencies, enhanced visibility, and better controls around its roles.

Many new treasury and financial management systems are available, and financial enterprise resource planning (ERP) solutions tie more closely to business operations. But budgets are challenging, and IT teams may be stretched. Creative firms are looking to share technology investment budgets *with* the IT group, and leveraging their IT resources with SaaS or hosted systems.

Form must follow function. The Treasury Vision is the key starting point in finding the right technology and automation solutions to build treasury out as a financial value creation center.

> "When a company makes the decision of where it needs to go, then it can look for these more holistic approaches to providing enhanced visibility and controls around cash and risk management."

THE RIGHT STEPS DEPEND ON WHAT PROACTIVE MEANS

TYRUS R. CAMPBELL

Executive Treasury Advisor, Wipro Limited

Tyrus Campbell has been a treasury practitioner for more than 30 years, bringing a unique perspective to the area that includes operational and quantitative disciplines. He was the treasurer and chief investment officer responsible for the income statement and balance sheet results of a large financial services organization, but he is equally well versed in cash management operations and quantitative discussions about equity volatility and interest rate hedging. Tyrus has been a long-term advocate for raising the expectations of treasury leadership and staff throughout the industry.

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KEY LESSONS

1. IF YOU WANT TO BE PROACTIVE, YOU HAVE TO DEFINE WHAT THAT MEANS.
2. COMPANIES INVESTING IN TECHNOLOGY OFTEN FAIL TO PROVIDE STAFF WITH TRAINING THEY NEED TO GET THE MOST OUT OF IT.

Before you can become a proactive treasurer, you have to define what *proactive* means. The term *proactive* means that you're working ahead of the problem and ahead of the result you want. Proactive could be cost-efficiency in one organization, and it could be income generation in another organization. Proactivity in an airline company might focus on fuel economy and risk management. In a coal company, it might be about keeping track of where the coal is. You have to set clear conditions of satisfaction so that people know what their expectations are.

When the expectations for a proactive treasury are set, achieving them depends on investing in three basic things: technology, training, and time. Technology is simple: you need a platform that best fits the purpose of a proactive treasury. Note that the best platform for a bank in the United Kingdom is probably not the best platform for an oil and gas company in Australia. It's important to provide the technology needed by people who are tasked with achieving the conditions of satisfaction for a proactive treasury.

Just as important as the technology is fundamental and advanced-level training needed to effectively use the technology tools. This must be continuous training because people come and go, and the way treasury uses its tools changes to keep pace with business requirements.

> "To be proactive, you need time to think about creating value in the business. Being proactive doesn't matter if you're not creating value."

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Finally, one of the most important investments for a proactive treasury is time. The fact is, people in treasury often have a lot of knowledge about how to get greater capital efficiencies in business operations. To be a proactive treasury organization, you need time to think about your plan. You need time to think about how you create value in the business. Being proactive really doesn't matter if you're not creating value.

Becoming a proactive treasury also depends on who is driving treasury to act more proactively. To understand this, it is important to recognize the vast difference between the old treasurer and the modern treasurer. The old treasurer typically pooled bank accounts in the morning, worked off of reconciliations, and didn't attend meetings or make decisions. This treasurer might work for the controller, who worked for the CFO. Getting technology for this person would be something of a joke, because others in the organization think he or she is just a person. Then, there's the new treasurer, who may be the same person as the CFO. This treasurer sits at the C-level table and has a large reach in the organization. So, who wants the treasury to be more proactive? It's the C-level treasurer. The one who wants it to be proactive is whoever is in charge of meeting those conditions of satisfaction.

"The one who wants it to be proactive is whoever is in charge of meeting those conditions of satisfaction."

BEFORE YOU START, KNOW WHERE YOU ARE AND WHERE YOU WANT TO GO

VARUN DUBE

Global Business Head, Treasury and Payments Solutions, Wipro Technologies

With 15 years of global diversified IT experience, Varun Dube is the Global Business Head for Treasury and Payments Solutions at Wipro, responsible for a portfolio of next-generation solutions and differentiated services around treasury, cash, payments management, financial messaging and channel/wallet services. He and his team understand the breadth of the treasury and payments landscape and provide end-to-end IT services around advisory, consulting, design, implementation, and managed services to Wipro's corporate and banking customers. Varun's specialties include strategy, industry / business solutions and business innovation.

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What does it take to move treasury from reactive to proactive? When I am asked this question, I usually reply with questions of my own: How do you define *proactive treasury*? What do you want treasury to *be*?

These are the key questions which must be answered at the outset before kick-starting any process to move treasury beyond the realm of glorified accounting. Unfortunately, there is no one template to answer this. The considerations for one company will be different from another; and hence one company's treasury needs will differ vastly from another's.

As a case in point, one of our clients is a leading semiconductor producer, and was hit hard by the 2008 economic downturn. Consequently, the company has identified the need for sophisticated treasury functionality, and yet it doesn't want treasury to be a profit generator. The focus and priorities are around risk management and capital protection and preservation.

Another client—a major oil and gas company—is at the other end of the spectrum. When it approached us for transforming its treasury function, the objective was to create treasury as a profit center with a high risk appetite to invest in complex financial instruments. So, the company uses its treasury to make its money work harder.

> "How do you define *proactive treasury*? What do you want treasury to *be*?"

KEY LESSONS

1. THERE IS NO TEMPLATE FOR PROACTIVE TREASURY. EVERY COMPANY HAS DIFFERENT TREASURY NEEDS.
2. HAVING WELL-DEFINED EXPECTATIONS AND ESTABLISHING KPIS IN ADVANCE WILL GIVE YOU MUCH GREATER TRACTION ON THE PATH TO SUCCESS.

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To round-up, what these organizations had in common was a well-defined vision and goals for what a proactive treasury group should do, and measurement criteria for how to assess this.

Most of my team's conversations with clients start there. We engage with customers and work to understand their long term vision, goals and expectations from treasury versus what treasury does for them today. Based on this, we define key performance indicators (KPIs) to measure treasury effectiveness. Next, we create a governance framework to determine how to capture and report these metrics to key stakeholders.

But first, before any organization can determine what your proactive treasury should do, you must gauge where you are now. You have to set realistic expectations for your treasury journey. And most importantly, you have to understand and sell to your executives that treasury improvements and changes will take time and focused efforts.

> "Don't neglect assessing both your current and your target treasury from people and skill set perspective."

Here are my recommendations for the treasury journey:

- Baseline your "as-is" treasury state and where you stand today. Define your "to-be" treasury state or target goals. Clearly outline the expectations for your treasury functions.
- Identify how you will translate stakeholder expectations into measurable value. Define KPIs so you will know how to measure treasury's success.
- Build a governance structure that determines how to track and measure KPIs
- Embrace next-generation treasury technology to be future-ready
- Continuously report treasury performance; and find ways to raise the bar on how things can be better, simpler, efficient and effective

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Two final points: first, don't neglect assessing both your current and your target treasury from people and skill set perspective. Ask yourself – is your staff ready? Do they have the right skills? Is your treasury group enabled, equipped and empowered to make decisions and deal with the internal and external changes?

Second, take a look at technology options based on your treasury needs. There is no "one-size-fits-all" solution. The most powerful and best-of-breed technology solutions may not be right for you simply because you may not need them. Many customers use basic technology infrastructure to make their treasury proactive. So it depends completely on what you want to achieve. Technology in treasury is an enabler to be "proactive", and finally should help the CFO and CEO and business achieve your goals.