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## Obtaining Treasury Resources: A Strategic Journey

Fulvio Barbuio, Australian Broadcasting Corporation - 1 June 2015

*How does treasury add value to an organisation and get the resources it needs to fulfil its role? By embarking on a strategic journey, treasury can find a seat at the 'main table' of the organisation.*

Many treasury departments are still seen as support functions, removed from the core operating activities of the organisation and as such have had to justify the resources they need. So how can your treasury department change all that? Let's start at the beginning.

### Battle for Resources

Organisations generally place their financial bets and resources with the business units that generate revenues and not so much with support functions. In the context of the post-Global Financial Crisis (GFC) low top-line growth environment, this means organisations have looked to find efficiencies across their broader operations. As a result, support functions including treasury have in particular faced scarce resources while often being asked to do more.

At the same time, the nature of treasury operations can place them somewhat in the background and their tools of trade are often taken for granted. If all goes well in treasury, it is somewhat invisible to the broader and main operations of the organisation.

In this context, framing a successful pitch for treasury resources requires an understanding of seven components:

- Strategic context
- Treasury value
- Treasury mandates
- Cost to serve
- Performance measurement
- Benchmarking
- Advocacy.

Surrounding all of these components is the need to demonstrate value as objectively as is possible.

### Strategic Context

Senior management and the board's prime responsibility is to build an enduring organisation that can create shareholder wealth on an ongoing basis. Shareholder wealth reflects intrinsic or business value and this is ultimately measured by the generation of future cash flows or economic profits. In turn, business value is primarily driven by business units and their strategies.

In this context, the contribution of the support functions including treasury can be less visible. While a treasurer's tools of trade are a means to supporting business value, they are not an ends in themselves. So what end business value does treasury deliver and how is that delivered?

### Treasury Value

If treasurers want to demonstrate their value, they need to go beyond the operational side of their activities and into the strategic. They need to speak the language of the C-Suite and the board. To do this, they must focus on business value and their contribution to it.

In what areas can treasury operate to maximise return on investment (ROI)?

- Risk management - e.g. foreign exchange, interest rates, commodities, energy, credit, market, liquidity
- Manage working capital - e.g. free up cash and support supply chains

Manage liquidity - e.g. fund operations efficiently where and when required

- Financial methodology and evaluation - e.g. robust business case evaluation and analytics
- Business growth support and advice - e.g. M&A, optimal business location, free trapped cash
- General financial and economic advice - e.g. economic and financial market assumptions and interpretation.

In what areas can treasury operate to minimise the weighted average cost of capital (WACC)?

- Financial leverage - e.g. debt or equity split
- Cost of debt - e.g. fixed versus floating, when to access
- Beta - e.g. via risk management
- Tax - e.g. planning
- Credit rating - e.g. obtain optimal rating and ongoing management of the credit agency relationship
- Types of debt and equity - e.g. markets, structure, flexibility
- Capital management - e.g. dividends, share buybacks
- Investor relations - e.g. which class of investors to attract that best fit the organisation's strategic goals
- Accounting treatments - e.g. audit outcomes impacting on management reputation and credit rating assessments
- Financial institution regulations - e.g. impact on WACC via pricing of bank funding facilities.

So in fact treasury has a good deal to offer business value by virtue of its whole of business remit across the income statement and balance sheet. This is something that no one other than the chief financial officer has an intimate understanding of. This business value perspective can be manifested both in reporting on past performance but also in making the case for future treasury suggestions, decisions and actions. The question is, can the treasurer demonstrate this with clarity, confidence and objective measurement?

### Treasury Mandatories

Treasury must also undertake mandatory activities such as responding to accounting, tax and legal regulations, achieving best practice financial controls and navigating core technology changes and challenges. All of these must be delivered at a high standard. However, to do this, resources must be diverted away from the business units that generate revenue and often their value cannot be so easily measured objectively.

That said, these mandatory activities do promote business value albeit indirectly as they support the organisation's right to operate and financial sustainability, thereby promoting stakeholder confidence. This confidence can and does impact business value through changes in stakeholder actions and transactions which in turn can impact future cash flows and economic profits.

### Cost to Serve

The business value and mandatory activities identified above will require resources to deliver, such as a sufficient number of quality and experienced treasury staff and access to technology to run treasury efficiently. Treasury will need to identify what resources are available and where they will be sourced from. These claims on resources will need to be fit for purpose and should aim to minimise process complexity and drive productivity improvement.

### Performance measurement

As mentioned above, a vitally important aspect of demonstrating treasury value is to identify its contribution to business value. So the treasurer needs to lay this out by:

- Hard numbers – e.g. WACC, ROI, free cash flow, economic profit
- Clear linkages from services to business value – e.g. how timely cash flow management has supported funding operations and M&A when required.

Measuring the business value adding performance of treasury needs to follow a number of characteristics to present a compelling and complete picture, such as performance against market benchmarks, productivity measures, comparing value generated against cost to serve, tracking performance over time and avoiding a key performance indicator (KPI) 'house of cards'.

In the end, what is measured gets visibility and 'may' get resources.

### Benchmarking

An important aspect of performance measurement is the idea of benchmarking against appropriate comparators. This is valuable as it can provide best practice insights and can be a powerful driver of innovation and improvement.

Undertaking treasury benchmarking can involve looking at business value delivered, structure and resources, efficiency and activities among others. A decision will need to be made as to how often benchmarking will be conducted and to track performance over time. Finally, sources of benchmarking data will need to be identified. Here there are three broad areas that treasuries can look to:

- Industry groups/associations - e.g. the Finance and Treasury Association (FTA) in Australia, the Association for Financial Professionals (AFP) in US, the Association of Corporate Treasurers (ACT) in the United Kingdom and the International Group of Treasury Associations (IGTA)
- Proprietary benchmarking databases - e.g. professional firms and consultancies
- Targeted social media resources - e.g. LinkedIn and related treasury groups and networks.

### Advocacy

The journey is almost complete, but there is one more important step in helping you get more resources for your treasury and raising the profile of the treasurer - being an effective advocate within the organisation. To do that, the treasurer needs to master a few things:

- Demonstrate value for money
- Talk the language of the 'main table'
- Identify key decision-maker allies
- Create and nurture corporate-wide relationships
- Develop, market and apply broad business skills.

The end game to this journey is the treasurer becoming indispensable to the broader organisation, is seen as a valuable contributor to its strategic goals, and obtains the resources needed to fulfil this role.

The opinions of the author are his own and do not represent those of the Australian Broadcasting Corporation.

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