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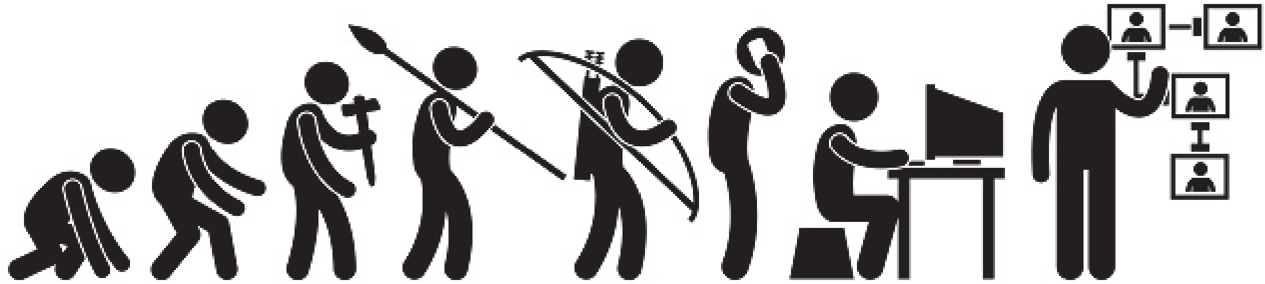
Evolution of Treasury

How, and why, the role of the treasurer is expanding—and what that means for those who aspire to the position.



Treasury is a function in transition. Not too long ago, the corporate treasurer was usually seen as the bill payer of the company, the manager of cash flows but little else. It was a transactional role that sat squarely in the middle of the finance cost center. But today, the corporate treasurer is often seen as a strategic partner to the business units, and many companies consider their treasurer an executive-level decision-maker.

Robert J. Baldoni
National Practice Leader, Global Treasury Services, EY

A recent survey by the Association for Financial Professionals (AFP) found that more than four out of every five finance professionals think their company's treasury function has become more strategic over the past five years. That survey also found that a significant proportion of treasury teams have taken the lead role in their company's investor relations, in mergers and acquisitions (M&A), and in business continuity planning—all activities that reflect an expanding scope of responsibility.

To trace the arc of this transition and sort out where the treasury function is headed from here, **Treasury & Risk** sat down with Robert J. Baldoni, the national leader of EY's Global Treasury Services Practice.

T&R: *How has the role of the corporate treasurer changed over the past decade or two?*

Bob Baldoni: Well, when you ask that question, you also have to ask, 'How has the role of the CFO changed?' What's happened over the past decade is that the CFO role has moved up fairly dramatically in the company, so that many CFOs are now shoulder-to-shoulder with the CEO. That's left a bit of a vacuum in the functional structure of many companies, and that vacuum has usually been filled by the treasurer.

Normally the primary functions under the CFO are the controller, tax director, and treasurer. If you think about the focus of each of these, the treasurer—focusing more on the future and the cash and growth into new markets—has been the logical person to step in for the CFO. So in many companies the treasurer has almost become the 'operating CFO' of the company, handling all the operational elements of finance and leaving the CFO to deal with the higher-level strategic visioning and corporate development.

T&R: *This is something you see happening in a lot of large companies right now?*

BB: Yes, it's a trend, and I think it's growing.

T&R: *What are some of the specific activities you're seeing treasury functions take on that haven't traditionally fallen within the scope of treasury?*

BB: Well, many treasurers are getting much more involved in the higher-level functions around things like funding for growth and mergers and acquisitions. Before, the participation of treasury in funding was more around cash management, but now we're seeing treasury more involved in the overall planning and structuring, as well as providing support in the creation of funding vehicles. This is also true for M&A, where treasurers are getting much more involved, much earlier in the due diligence process. Finally, we now see enterprise risk management tending to be housed in the treasurer's space.

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To circle back to your original question, the role of the treasurer has shifted from being primarily the bill payer, the banker, the financier to being a really integral part of decision-making at the company, a real value contributor. And that value comes in a lot of shapes and a lot of forms. It could be that a treasurer is walking down the hall to procurement, bringing treasury skills to decisions around the supply chain and commodity exposures and those kinds of risks. The procurement folks might still deal with the supply and delivery risks, but treasury might help with some of the market risk.

Some treasurers are getting involved in pricing and showing the business units how to decide whether to sell in the local currency. If you're up against local competition and you're from another country and another cost base, you can't sell in dollars when everybody else is selling in the local currency. The business unit needs to be able to look at the supply chain and how it feeds pricing and how it feeds risk—and treasury is in the perfect position to help with that. A business unit might even be looking at selling in a third currency because that's what a customer asked for because they happen to have a stream of cash in some other currency. The treasurer can show business units how to present the customer with prices in different currencies, deal with the risk that creates, and calculate the true cost to the company of one-off sales that add unique risks

Other treasurers are looking at credit issues. For example, we've seen some companies where a third-party contract manufacturer may not have the best credit and treasury helps the company stand between the provider of the materials and the contract manufacturer to reduce the credit risk, because that was a pass-through cost anyway.

These are diverse examples, but they show the range of different higher-level activities that treasury is getting involved in within some companies.

T&R: *So, what is the benefit to the company of expanding the role of the treasurer?*

BB: I think a company is at a competitive disadvantage if it does not give treasury, and the treasurer, a broader palette of responsibilities. Companies that look at treasury as simply the banker and the financial risk manager are leaving a lot on the table.

T&R: *Why is that? Is it because treasurers have a specific skill set they bring to strategic decisions?*

BB: That's exactly it. Treasurers have developed tools to manage risk. They've developed tools to provide liquidity. They have tools to take volatility out of earnings. They can use that same toolkit to support the business units as they work on increasing market share; building competitive advantage; and adding stability and sophistication to client pricing, whether through risk sharing or different currency options. These are skills treasury is already using for internal company management. If they push that out to the businesses, they will help the business units meet their goals.

For example, traditionally treasury has always dealt with foreign exchange issues in the past tense. A foreign business unit might project that it will sell 5 million units of X and that it will make so much money. It might actually sell 5 million units, but if the currency moves against it, it may be less profitable. And treasury will be responsible for managing that exposure after the sale is made and the receivable is on the books. But if treasury can get involved earlier in that cycle and help preemptively manage some of the anticipated risk, determine the pricing, maybe encourage some risk-sharing during the bidding process, it can increase the chances that the business unit will reach its profitability goal if it hits its sales target.

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If a business unit says, 'I'm not going to lock in this hedge because if rates move the other way, it will hurt my numbers,' that unit is taking a risk not just for itself but for the whole company. If the currency moves against it, the managers may not get a bonus, but the company is also going to take a hit. Treasury, being more objective and looking at things from a broader, corporate-level perspective, might be able to get in there and say, 'We're going to do some options, we're going to use these techniques, and we'll provide you with some of that.' It's pretty valuable to get treasury involved where these conversations are happening.

T&R: *Would treasury end up sharing these kinds of risks with the business units, or just help them set up their own financial risk management processes?*

BB: I once saw a quote on the desk of an executive I was working with that said, 'Trust only those who have as much to lose as you do when things go wrong.' That's really the key. If treasury is going in to the businesses and saying, 'Let me help you,' they need to have some 'skin' in the game. Treasury can't say, 'You need to hedge all these local-currency sales,' and then disappear, leaving the business unit to make the trade and deal with the consequences on its own if the currency moves in the other direction and it hits their margins. These have to be programs that treasury is prepared to support and co-develop with the businesses.

I often tell treasurers, 'Don't take that next step until you have your own house in order. Make sure your treasury is stable, your systems are up to speed, you're using straight-through processing, your efficiency is there, your liquidity management is there. Because helping the business units with risk management is going to add complication to your organization. If you're having trouble managing your own day-to-day tasks, you're not going to be able to help others.'

T&R: *So, for treasurers who want to take on more responsibility at the strategic level, what's the path forward, beyond getting their function under control?*

BB: It's also important to take a broader view of the business. If you're brought into business decisions, production decisions, or acquisition decisions, you want to make sure you're adding value. Generally in the past, treasury was brought in at the back end of acquisitions. Somebody would drop a packet on the treasurer's desk and say, 'We just bought this company. Integrate it.' Now treasury is usually brought in earlier in the process, and it's important for the treasurer to speak up and bring his or her unique expertise to bear on all the complexities of the decision.

Another important step is to implement the most efficient processes and technology infrastructure possible. Treasury tends to have a smaller staff than most other departments; that makes technology even more crucial to treasury. What technology ultimately does is provide scalability to the treasurer by pushing the transactional work down into the system, which frees up staff time for more strategic, value-added work. It also provides scalability, by virtue of the fact that the treasurer can take on more responsibilities without adding staff.

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Most treasury functions were not designed, per se. They just evolved over time. Very few people start with a blank sheet of paper and say, 'Hmm. How are we going to build our treasury today?' It's more like 'Here are our immediate needs: We acquired this company; we divested that company. We have three legacy systems. We have staff with these skills and we currently need those skills.' Failure is never an option in treasury. Money has to go out by 3 p.m., so money gets out by 3 p.m. Nobody outside of treasury asks how it got out; they just 'scream and yell' if it doesn't get out on time. So historically the treasury team has found workarounds when necessary to get the job done. They've used spreadsheets, they've found bolt-on systems. Now there is a movement to try to clean up and make treasury more efficient.

Maybe in the past a certain activity required one staff member to create a spreadsheet, then to pass that spreadsheet on to the next person, who would manually take that information and add three numbers and divide it by six, and the spreadsheet would work its way through the process, taking up a lot of staff time along the way. Now, with straight-through processing—meaning you put something in and it's touched very little by human hands as it moves through the process—treasury can add a great deal of efficiency. Treasury systems can automatically get bank account information, execute foreign exchange transactions and confirmations, identify and consolidate exposures. That enhances a company's control process, and it also removes the necessity for the treasury staff to do a lot of tactical work.

T&R: *Does the modern treasury function require a significantly different skill set from the traditional repertoire of the treasurer?*

BB: Yes, these changes may change the skill mix within treasury. Today's treasury staff needs to be savvy with technology, and the treasurer needs to have experience in selecting, implementing, and using treasury workstations or ERP treasury modules.

Treasury also needs to be much more connected to the markets today. Communications technology is such that if something happens in one country, within 10 minutes it's affected everyone. That wasn't the case in the past. And the things that move the market are different. Back when I was a 'treasury pup,' we used to wait for money supply to come out and then decide how to adjust our positions, and it mattered. Now I don't think most treasurers focus on it as a determinant of their hedging program.

Another important transition is that treasurers need to think more globally. In general, U.S. companies used to be international and now they're becoming global. What I mean by that is: Before, we used to make products here and sell them abroad. But now, where we make a product, where we sell it, where the supply chain is managed, where corporate headquarters is—they're all over the world. It doesn't matter anymore that I can't see it all from my desk. To meet the demands of a globally dispersed company, treasury has to change and grow too. Treasury needs to be globally dispersed. There need to be regional treasury centers. There need to be concentrated areas of risk management. The company needs in-house banks and technology. Treasury needs to be looking at shared services.

These changes are requiring many treasurers to stretch their skill sets, but they are also a large part of what's driving the evolution toward a more strategic treasury function.