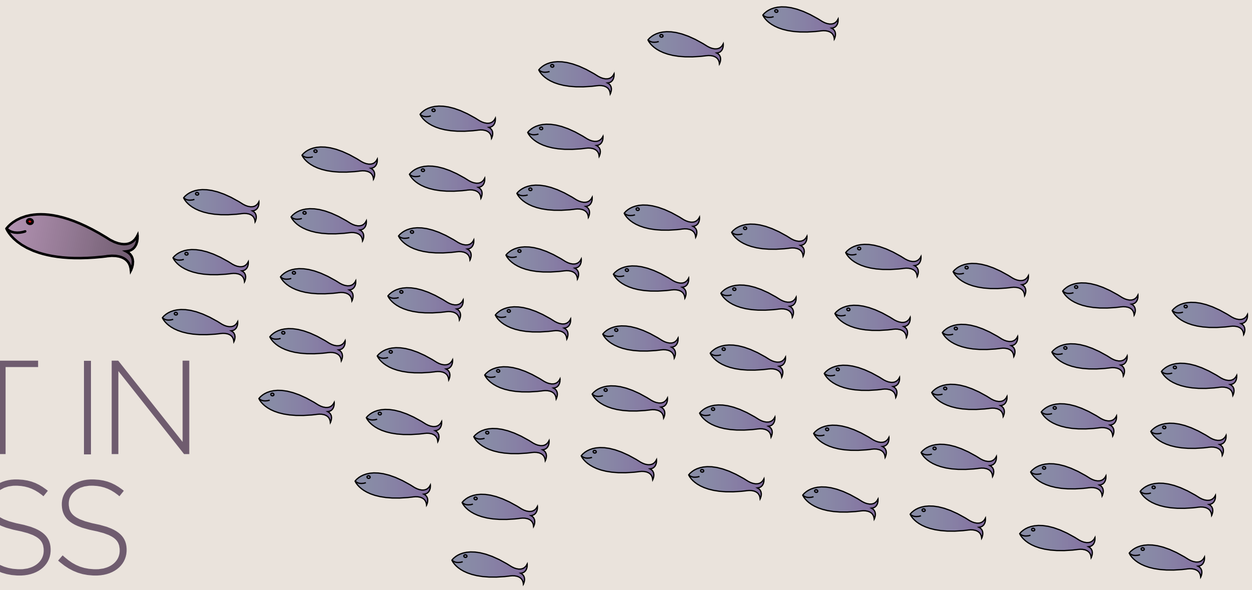


BEST IN CLASS

A TRANSFORMATION PROJECT CAN HELP TREASURY TO CEMENT ITS POSITION AS AN IMPORTANT STRATEGIC PARTNER TO THE BUSINESS, SAY ARN KNOL AND MARK VAN OMMEN

While treasury transformation has been on the minds of many treasurers since the financial crisis of 2008, the recent flood of regulations impacting treasury has caused many transformation projects to be put on hold. At the same time, the crisis further emphasised the strategic importance of treasury within any company. So with the burden of implementing regulation perhaps starting to recede, many corporates may renew their ambitions to transform their treasury departments in 2014 to reflect treasury's evolving role.

The evolving role of treasury

Virtually everyone involved in corporate treasury today agrees that over the past few years, the importance of the corporate treasury department has greatly increased. Whereas treasury used to be a relatively stand-alone department that looked at central cash positions and central treasury risks, treasurers are now expected to have a real-time overview of the group's cash positions, handle all of its bank accounts, understand the FX aspects of commercial contracts and manage counterparty risk at a customer level, along with many other responsibilities. This evolved role, often referred to as the internal consultant role of the treasurer, requires significant changes to be made to the way treasury is organised and to the systems it uses.

Over the past decade, global corporate treasuries have been swept up by a trend towards treasury transformation. An elite group of multinationals have increased efficiency, enhanced visibility and reduced cost on a grand scale in their finance and treasury departments. In this article, we will investigate the triggers for such treasury transformation and what is considered as best practice in terms of the approach.

Triggers for treasury transformation

The most observed triggers for treasury transformation are:

◆ **The changing role of corporate treasury.**
The scope of the treasury organisation is expanding into the financial supply chain. As a result, the relationship between the CFO and the corporate treasurer is deepening. This raises new expectations and demands of the treasury team and technology, which the current organisational construct or systems infrastructure may not be able to support.

◆ **Organic growth.**
As a result of natural growth, current treasury infrastructure may no longer be appropriate to support new markets or products, or to manage the risks associated with the increased scale of the business. This will then require changes in policies, systems and controls.

◆ **Desire to be innovative and best-in-class.**
A common driver behind treasury transformation is the human desire to achieve best-in-class – a desire that seems to be naturally present in many treasury professionals, but that is often brought about following the appointment of a new treasurer or CFO.

◆ **M&As and spin-offs.**
M&As, which bring together two treasury departments, each with their own systems, processes and people, and which need to be merged or rationalised to achieve expected synergies or efficiencies, may trigger transformation. Another trigger can be spin-offs and divestures, which require the set-up of completely new treasury departments.

◆ **External factors.**
The changing regulatory environment, as well as increased volatility in financial markets and a greater focus on risk management, have been major drivers of change in corporate treasury in recent years.

All the triggers mentioned above will apply to most organisations, at least to some extent. But there is often a single trigger that causes the organisation to embark on a treasury transformation project. Meanwhile, the growing importance and influence of the treasury department

WHAT IS TREASURY TRANSFORMATION?

Treasury transformation refers to the definition and implementation of the future state of a treasury department. This includes treasury organisation and strategy, bank relationships, system infrastructure and treasury workflows and processes.

STRATEGIC OPPORTUNITIES FOR TREASURY TRANSFORMATION

TREASURY AREA	TREND	RECENT PAST	NEAR FUTURE
Treasury organisation and strategy	• Virtualisation • Centralisation • Local empowerment	• Decentralised • Local services	• Virtual global organisation • Centralised (in-house bank/ payment factory) • Enhancement of shared services • Integrate into company culture
Banking landscape	• Independence • Rationalisation • Balancing bank fees versus credit commitment	• Multiple banks • Multiple bank accounts • Multiple e-banking tools • Multiple single cash pools	• Balanced banking wallet • Simplified account structure • Independent bank connectivity • Multi-currency overlay cash pool
System infrastructure	• Automation • System integration • Straight-through process	• Stand-alone systems • Non-automated interfaces	• One global portal • Integrated best-of-breed TMS versus full ERP solution • Seamless interfaces • No paper
Treasury workflows and processes	• Simplification • Standardisation • Enhance compliance	• Many different processes • Not very standardised • Labour-intensive	• Uniform processes • More with less • Dematerialisation of paper • System-integrated controls

within a company mean that the scope of a treasury transformation project will often extend beyond the treasury department itself. For example, the purchase-to-pay and order-to-cash processes are commonly streamlined and improved as part of a treasury transformation project.

Focus of treasury transformation

Much of what is regarded as best-in-class in treasury transformation relates to a number of central themes. Firstly, business integration tops many treasurers' agendas. This is about accessibility of information to ensure that a full overview and visibility of all relevant data is available in real time or near real time for the treasurer. It allows for instant access to bank balances, accounts receivable ledgers, accounts payable ledgers, stock levels and other sources of information with an impact on exposures and cash forecasting.

A second key theme is the centralisation of processes and systems to realise efficiencies of scale or to outsource certain routine tasks such as bank statement reconciliation or deal confirmation matching to a financial shared service centre.

Thirdly, corporate treasuries are looking more critically at their bank relationship management strategies. Since the financial crisis, they have increasingly focused on bank relationship management, counterparty risk management and appropriateness of wallet distribution. Additionally, they need enhanced efficiency of cash and liquidity management structures, while also seeking to become more bank-agnostic and standardised with regard to bank connectivity and payment file formats.

Lastly, and this is especially true for corporate treasury departments in multinational corporations, there is a strong drive towards achieving fully integrated and harmonised IT systems. Often, this is achieved by integrating all treasury processes in a single enterprise resource planning (ERP) system, either by using existing technology or by selecting a dedicated best-of-breed treasury management system (TMS). This will reduce IT costs, standardise processes and improve efficiencies.

The table above offers further insight into the strategic opportunities for treasury transformation.

Executing treasury transformation

A treasury transformation programme is more than a single implementation project. It is a multi-year programme that takes a holistic view to redesigning a corporate's treasury organisation and strategy, bank relationships, system infrastructure and treasury workflows and processes.

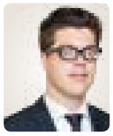
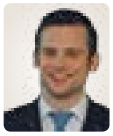
Therefore, a key element in the programme is the definition of a three-to-five-year treasury roadmap, which defines the various projects to be undertaken and plans their phasing and interdependencies.

The actual implementation of treasury transformation is considered the hardest part of the project and will consume most of the project's time and resources. Critical success factors include ensuring sufficient buy-in from all stakeholders; setting realistic goals and deadlines; and ensuring the required level of in-house and external expertise is allocated to the project. But the most difficult part, which is often underestimated and neglected, is change management. The inevitable result of a treasury transformation project is that some employees within, and sometimes also outside of, the treasury department will find their roles and responsibilities will change, while others might find their jobs become obsolete altogether as a result of the project. If not managed correctly, organisational resistance can very easily undermine the realisation of the project.

Conclusions

The adagium 'internal consulting role of the corporate treasurer' has been around for quite some time. But many treasurers were never fully able to fulfil this role because their treasury organisation was not sufficiently integrated with the business and spent most of its time on routine activities. Thanks to recent developments in treasury technology, and changes in the banking landscape and treasury processes, it is now time for the treasurer to become a true business partner.

The evolving role of the treasurer provides recognition and, therefore, opportunities for the treasurer to possibly progress to a CFO role. Successfully executing a treasury transformation project is no easy feat, but, if done successfully, it will reinforce the central and vital position of the treasury department within the company.

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