Organisations must create and maintain value for their stakeholders. In simple terms, the theoretical value of a cash-generative business is its expected net future cash flows, discounted to reflect their timing and risk.

Treasurers support and enhance corporate value by helping to manage and potentially improve the size of future cash flows, their timing and their risk.

**Improve cash flows**

Naturally, we want to increase net cash inflows, and reduce any net outflows. This is achieved by a combination of cost savings and revenue growth. Improving timing means accelerating inflows, and deferring outflows.

**Risk management isn’t free**

Investors equate high volatility of cash flows or profits with high risk. Risk management is concerned with reducing the variability of future cash flows, usually at a cost. For example, a forward contract can hedge, and effectively fix, the amount of a future cost. The rate achieved will normally be slightly worse than the average outcome from leaving the exposure unhedged. However, ‘no hedge’ would be a riskier response.

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**Save net costs**

Treasurers add value through net efficiencies, both operational and financial. Net operational efficiencies include saving time and salary costs, plus other costs and fees.

These savings need to be greater than the cost of making necessary upfront investment. Financial efficiencies include saving net finance costs of all kinds, and minimising losses.

**Enhance operational profits**

Growing operational revenues and profits often need treasury support, and potentially investment in treasury itself. Corporate value is added when gains outweigh costs, considered at the whole-organisation level.

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**ACT QUALIFICATIONS**

Add value to your business and clients. See treasurers.org/professional-standards/qualifications/syllabi

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**Risk responses**

At the treasury organisation level, responses to risk can be broadly viewed as cost-centre treasury, value-added treasury or profit-centre treasury.

<table>
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<tr>
<th>Increasing risk appetite →</th>
<th>Cost-centre treasury</th>
<th>Value-added treasury</th>
<th>Profit-centre treasury</th>
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**Cost centre**

The cost-centre approach to risk views treasury as essentially a service function for the organisation. Cost-centre treasuries aim to ensure:

- Efficient use of cash;
- Minimal financial volatility, preferably with immediate certainty of the final outcome.

**Value-added treasury**

Value-added treasuries are also known as 'cost-saving' centres. They are a more risk-tolerant variant on cost-centre treasuries. The value-added approach includes consolidating transactions and expertise to achieve net savings.

**Safeguard your organisation’s cash**

See ACT resources at treasurers.org/resources/skills-you-need-to-safeguard-an-organisation-financial-health

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Treasurer’s most important role is to safeguard existing value. Our flexibility to add further value depends on our organisation’s priorities and its response to risk.

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**Critical role**

Corporate treasury plays a critical role in business strategy. It’s essentially the lifeline of an organisation, ensuring steady cash flow, spearheading investment strategies and balancing risk and reward.

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With many thanks to Paul Cowell for his valued suggestions.

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Doug Williamson
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