ADDING VALUE

CORPORATE TREASURERS ADD VALUE VIA RISK MANAGEMENT, COST SAVING AND ENABLING OPERATIONAL CHANGE. DOUG WILLIAMSON EXPLAINS HOW

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.

ACT QUALIFICATIONS

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

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.

Safeguard your organisation's cash

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

Treasury'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.

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.

Increasing risk appetite ⇨		
Cost-centre treasury	Value-added treasury	Profit-centre treasury
Increasing flexibility ⇨		

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; and
- Minimal financial volatility, preferably with immediate certainty of the final outcome.

Treasury is widely seen as value-adding shared services, with 92% run as a cost or cost-saving centre.

Global Treasury Benchmark Survey 2017, PwC

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.

Valued-added treasuries and profit-centre treasuries (discussed below) are generally associated with greater centralisation. They require treasurers with greater skill to work with higher-quality systems. Appropriate training is an essential component in maintaining and growing the skills of your team. Find learning and development opportunities to shape your business strategy for success at academy.treasurers.org

Profit centre

Profit-centre treasuries are relatively rare in non-financial corporates. They may seek to earn profits by deliberately creating market positions, as well as actively managing operational exposures.

Controls over this type of activity must be very strong. More commonly, such speculative activity is undertaken by specialist units, separate from the corporate treasury.

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.

treasurers.org/treasurychecklist
treasurers.org/business-of-treasury/2018

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