In the right spirit

The working relationship between the treasurer and the finance director of a company is an important one. It is also likely to be complicated. Both parties need to understand each other's ideas and perspectives as well as agreeing on the overarching corporate strategy and goals which inevitably guide and influence the way both individuals have to work.

Striking the right balance makes all the difference when the company is constructing funding and treasury policies, and making merger and acquisition decisions.

Allied Domecq's former Chief Financial Officer (CFO) Graham Hetherington and former Group Treasurer Bob Williams worked hard to tackle potential conflict and sensitivities before the company was acquired by global spirits giant Pernod Ricard in 2005. Ultimately, the strength of their relationship helped to transform the company.

Hetherington says: "We took a business which did not have a reputation to be proud of and dramatically changed it."

DRAWING ON DIFFERENT EXPERIENCES Hetherington joined the company in 1991, working in several different finance roles before becoming CFO in 1999. He makes the point that given his limited experience in the corporate finance arena, he realised that it was vital to be surrounded by a good treasury.

He says: "I am an operator through and through. I didn't come from private practice, I've never been in banking, and I had never done any treasury work until I became CFO.

"There was tension early on when Bob and his colleagues were running faster than I could intellectually keep up. I felt I had to be 100% sure on the effects that something would have on the business before committing to it. It must have been frustrating for them."

Overcoming this barrier required Williams and Hetherington to work closely together to ensure that both were in agreement on the key issues for Allied Domecq.

Executive summary

- At a recent symposium organised by the ACT, Graham Hetherington and Bob Williams examined the working relationship between the treasurer and the finance director and explored how the relationship can have a beneficial impact on the company's shareholders.

Williams says: "There was a lot of merger and acquisition activity at the time so it was busy for us all. We had to make sure we communicated well."

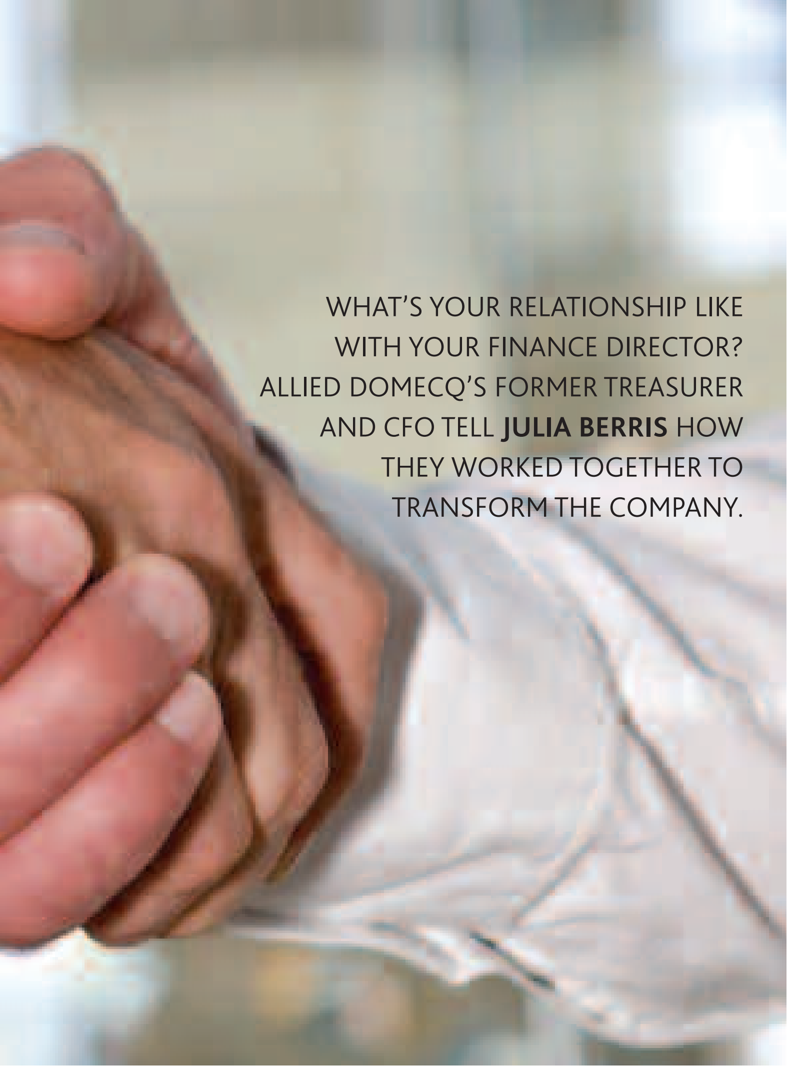
While the Group Treasurer and CFO were learning to communicate and work together, the company had embarked on a series of major strategic changes in a bid to propel itself into a different and stronger market position than it had occupied for many years.

Between 2001 and 2003, Allied Domecq completed some 10 transactions and the share price rose by 60% during that time.

Hetherington says: "We had divested £3bn worth of the UK company. We focused on international spirits, wine and international franchising. We repositioned ourselves within those categories via acquisition and divestment. We ultimately doubled the shareholder value of Allied Domecq while the equity market fell by 50%."

Contributing to such material corporate developments against a difficult and demanding environment is clearly not a straightforward task. Hetherington says that strong and effective communication between the CFO and the treasurer – and between the financial professionals and the shareholders – is needed to make such an exercise a success.

He says: "When I started, a number of institutional shareholders thought it was quite extraordinary that the CFO was going to see



WHAT'S YOUR RELATIONSHIP LIKE WITH YOUR FINANCE DIRECTOR? ALLIED DOMECQ'S FORMER TREASURER AND CFO TELL **JULIA BERRIS** HOW THEY WORKED TOGETHER TO TRANSFORM THE COMPANY.

"WE TOOK A BUSINESS WHICH DID NOT HAVE A REPUTATION TO BE PROUD OF AND DRAMATICALLY CHANGED IT… WE ULTIMATELY DOUBLED THE SHAREHOLDER VALUE OF ALLIED DOMECQ WHILE THE EQUITY MARKET FELL BY 50%."

them. We used to summon them because that was the way that they communicated in the past.

"We engaged and invested immense amounts of time explaining to shareholders what it was that we were setting out to do with the business. We listened to shareholders and allowed them to express their opinions."

A CHANGING ROLE The treasury function at Allied Domecq underwent significant changes during the time that Williams was with the team. Joining in May 2000, he headed a department that had recently moved to Bristol and was in the process of centralising the treasury operations.

He says: "Over the years that I was with the company we continued to centralise. We made sure that we had all the right controls and policies sitting in the centre. Most of the group-wide liquidity management was pulled over from several locations. We shut the North American treasury function, so we were managing Canadian and US cash on a daily basis."

Williams and Hetherington say they adopted a clear and easy-to-understand financial strategy that played out as a consistent message to the market over the six years that they worked together.

Williams worked on acquisitions and spent time renegotiating the company's balance sheet to ensure the refinancing risk was taken off the table and to provide flexible funding for the company.

SPLITTING THE WORK Williams says: "I am not an ivory tower treasurer. I am into working with a treasury function that is dedicated to supporting the business. It is a service function. The more you work with finance directors around the world, the more you will understand how the whole business works, what the goals are and how you can contribute."

With so much merger and acquisition activity the treasury team worked flat out to ensure that the company had the right financing and could achieve the goals the shareholders were expecting.

Working in a team of people should involve a team effort which incorporates individual recognition, argues Williams.

He says: "There is nothing worse than a member of staff working their socks off preparing an idea, and not having a chance to take it to the CFO personally. The treasurer takes it and then gets the credit. We wanted to create the environment in which individuals would be doing the work and having one-on-one time with Graham themselves.

"I would coach them and make sure they had all the key points but that then gave them exposure to the CFO. This is really important for team and personal development."

Williams argues that the treasury function moved quickly from an old-style system to a more modern set-up that suited the business and the direction in which it was heading.

He says: "It was great to get into the levers of the business and get to know exactly what was happening in the business. For example, the CFO asked me to project-manage the development of a working capital framework to support the cash generation going forward."

Every company has its own unique set of risks and each company will adopt a different way of dealing and managing those risks.

The treasurer and the CFO both have to work closely to decide how to balance the risk strategy between taking risks and playing it safe.

Hetherington argues that the CFO has to look objectively at risk and ensure that those around him are specialists who can make informed decisions.

He says: "As the CFO you cannot fall on either side of risk management or mitigation. You do not make money if you do not take risks and I would advise shareholders of that. Therefore, I, as a CFO and a member of the board, have got to be party to risk-taking."

The CFO must ascertain what the risk appetite of the board is, understand the business strategy and have the ability to understand what risks are attached to the strategy.

Hetherington says: "You must build a really good strong team of people around you that can effectively put in place the risk management strategy. There must be a watertight treasury function."

Communication and understanding are the core principles to a successful CFO and treasurer relationship.

Hetherington says: "The most important thing for me is to be open and frank. That has always been a key part of the relationship that Bob and I have had during our time working together.

"I passionately believe that it not only worked for the CFO and treasurer but throughout the Allied Domecq organisation."

Julia Berris is a Reporter on *The Treasurer*.
editor@treasurers.org