Ask the experts:

Perfectly placed to add value

AT THE RECENT TALKINGTREASURY CONFERENCE IN DUSSELDORF, ONE DISCUSSION CENTRED ON THE CHANGING ROLE OF THE TREASURER AND HOW TO COMMUNICATE THE VALUE OF TREASURY.

Carsten Rueth, head of treasury at RWE Npower

It is quite challenging to run a regional treasury department when most of the treasury work should be centralised at company headquarters level. But it can be very interesting if you position the regional treasury to add value to the regional as well as the parent company level.

We all start off in the basic reporting role with the mere execution of transactions. If you want to add more value, you start to think of a more advisory role where you look to analyse the data you are capturing, and try to make the processes run more smoothly.

A navigator for the business has to be sitting at the parent company level. However, the regional treasurer can add value in an advisory role and that is what the treasury team has been trying to do at RWE Npower. We asked ourselves in treasury at RWE Npower the classic question of where our customers are.

Our customers are on two different levels of the business: on the group level (at the parent company) and at the business unit level.

The parent company customer does not have the understanding of what goes on in terms of the local banking system, cash collection practices and projects. Regional treasury needs to explain that. The parent company works through a governance framework where it sees some transparency of the regional treasury level. The regional treasury has to run with this and explain it at the regional company level because often the regional company sees it as a restriction or limitation, holding up projects the regional company wants to execute.

The treasurer needs to make these governance systems work for the regional company. If you achieve that, the operating companies will be happy with the support level the treasury function is giving them. As a treasurer you have a direct insight into the business in terms of the cash flowing through the regional business. If treasurers can make sense of this, then they can be a secondary source of information for the local finance director, giving an early indication of potential problems.

The treasury function needs to decide what functions should be centralised at group level and which functions should be devolved down to the regions. Some functions are natural to centralise because of scale and synergy; these include the execution of foreign exchange (FX), risk management, inter-company funding, external funding and the management of the rating and the bank relationships.

What is left at the regional treasury level is running the day-to-day cash operation, executing the cash pooling, maintaining the cash forecasting and running the payment and receivables processes. If you focus the regional treasury operation on these activities, you will be on the right track.

My key performance indicators (KPIs) are focused on the cost of running the banking structure in the UK. Items such as the salary position are pretty fixed. In terms of banking cost, I seek to drive down the unit cost of the banking transaction while shifting more additional business towards the bank. Most other costs are straight-through, and so not manageable.

On a regional level the added value lies in picking up the information early, trying to create transparency and proper controls in line with the requirements of the parent company and supporting the local FD by implementing extra control and being an early indicator.

Lesley Flowerdew, tax & treasury director at WS Atkins

Joining WS Atkins just short of two years ago, I had a very interesting induction into the company. One of the first things I did was to visit the underlying businesses to seek their views of the treasury function within Atkins. I talked to divisional managing directors and divisional finance directors, who were not all positive. It was clear that some in the divisions perceived the treasury function as blocking what they were trying to do. Having listened to this, I came to the conclusion that communication between the centre and the business units was key. The idea that interests me is how treasury sitting at the centre can actually add value in the business.

WS Atkins is an infrastructure consultant, a service organisation offering a number of engineering services in locations such as the US, the UK, China, the Middle East and Asia with four key divisions. People are our major asset and our intellectual asset.

The business operates in some exotic places and the treasury function finds itself advising colleagues who are working on significant infrastructure projects in places such as Russia, Libya, Ethiopia, South Africa and Kenya. As a company WS Atkins does not have strong infrastructure in such territories. The treasury function can come into its own by acting as a business adviser to the divisions, helping them on issues such as pricing and funding strategies, currency management, exchange control, cash repatriation and banking regulation. Our focus is on enabling their businesses and, in this regard, we have to be a lot more creative for the businesses to be successful.

At the same time, we have to ensure we protect the worth of the group. Along with core risk management skills, the treasury function incorporates certain aspects that are increasingly critical in creating value for the business. These include better understanding the business, its clients, and its bid processes. We have also increased our financial awareness in relation to project profitability: the impact of both our advice and the risk profile of our clients. Enabling communication is key to our future success in this regard. We don't have to physically be there 100% of the time but strong channels of communication must exist. The business is dynamic and agile and it expects the treasury function to be the same.

Wolfgang Frontzek, manager group treasury at WILO

The fact that WILO is a private, family owned company that has been in existence since 1872 has an influence on how you should organise the treasury department and how you should add value to this company. For instance, one of the main strategic goals of the business is to maintain its independence. The changing shape of the business in terms of the geographical spread and growth – in Eastern Europe and Asia – presents completely different challenges for the treasury department compared to when I joined the business 10 years ago. For instance, we now have local treasury centres in India, Korea and China and that means that you have to completely reorganise the structure and the function of the treasury department.

So what is corporate treasury at WILO? With a direct reporting line to the CFO, we are there to help control the business and the cashflows by policies and guidelines on issues such as banking policies, customer credit management, financing and hedging guidelines. And those all have to be co-ordinated with the local treasury centres that we work with on shared goals and targets. We manage cash management through netting, inter-company loans and cash pools wherever possible. This is supported by a worldwide liquidity planning process using as a standard a three-month rolling forecast using integrated software. This is an approach which is not usual for a company of our size.

We started commodity hedging five or six years ago. At that time nobody cared about commodity pricing except the operational staff responsible for it in the factory; it was just another report in our risk management system. Now the main stakeholders inside the company, including the supervisory board, take a serious interest in development of raw material prices and their impact on our gross margin.

This is another perfect proof that a treasury function cannot act or add value on a set of KPIs only, and that goals and key initiatives can change over the time and thus also the awareness of whether a function adds value or not.

Additionally, we have to ask what added value is about. Is it the return on investment calculated with the weighted average cost of capital (WACC)? If so, what is an investment in treasury except personal expenses, some hardware and some software?

But I am not sure if we should measure it this way. We claim to reduce the volatility on foreign exchange. It sounds wonderful but how do you measure it? Against the market, or a budget rate, historic or moving rate? We say pooling and netting and so on improves the cost of finance. Is there a fair way of measuring it? Pooling and netting incur an administration cost. Do we have a benchmark which sets out how we add value?

In the present financial crisis the role of the treasurer has never been more vital. Never forget the golden treasury rule: profit is hope, cash is reality. Did you ever think two or three years ago that we had to have concerns about the default possibility of a major bank?

Coming back to what I said in the beginning: one of the key goals of a treasury function is to secure the business's financing ability at any point in time. This is the highest value we can add to a company. But I am not sure if we are communicating all this in a proper way to the rest of company and the stakeholders.

Peter Radtke, head of finance and group treasurer at REWE

If you look at this topic, you can find three different aspects.

First, the value of treasury is influenced by political and economic movements. The value of finance management has gone through various cycles in the last two or three decades. Currently we are on top of the wave. For me the indication for this statement is that CFOs are often the successors to CEOs. Conversely, the bottom of the cycle was reached about 10 years ago when everyone was discussing whether finance should be a board function or whether it was enough to have the head of the finance/accounting department at the third or fourth-tier level of management.

Second, treasurers need to be given the internal power to really communicate treasury and financial management. Whether that happens depends on how the treasury and finance function is organised and how the departments are linked to the rest of the company. What is the grip, the influence of treasurers on their colleagues in accounting and control? What is the treasurer's influence over finance managers in the subsidiaries? This is a very hot topic.

And the third aspect to address is whether the work of the treasury department is generally measurable. If treasury is working as a profit centre the answer seems to be easy: results seldom lie! But if not, are there key performance indicators, benchmarks, measurable and identifiable results which can indicate the specific value of treasury for the respective organisation? These questions show that there is no global answer. Every organisation has to develop its own valuation scheme and to set up a reporting process to communicate the value of treasury.

WE DON'T HAVE TO PHYSICALLY BE THERE 100% OF THE TIME BUT STRONG CHANNELS OF COMMUNICATION MUST EXIST. THE BUSINESS IS DYNAMIC AND AGILE AND IT EXPECTS THE TREASURY FUNCTION TO BE THE SAME.