AT THE BUSINESS END


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Treasurers are finding themselves in the spotlight like never before

TRAINING Corporate treasury is currently one of the most interesting and challenging of management topics facing business, discovers **Peter Williams**

■ The key task facing whoever is carrying out the treasurer's role in any organisation is to take charge of the corporate financial strategy. The events of the last few years – the credit freeze and the global financial crisis combined with a deep recession – have underlined the importance of a corporate's financial strategy like never before. And it looks like remaining centre stage for the board and the stakeholders for some time to come, because if a treasurer gets the corporate's financial strategy wrong then he or she puts at risk the very survival of the enterprise. The real possibility that a business could run out of money by failing to raise enough finance for its needs or by mismanaging its cashflow has put treasury under a spotlight more than ever.

John Grout, policy and technical director at the Association of Corporate Treasurers (ACT) describes corporate treasury as "the fun end of finance" – finance as distinguished from accounting, of course. Perhaps not everyone's description, but what he means is that treasury is the fascinating interface between the company and the financial markets. Treasurers spend their time looking at the future rather than analysing the past, says one treasurer: "One moment a treasurer has to think like a commercial banker, then an accountant, a risk manager, an investment banker and then a dealer or a corporate financial specialist." But, Grout adds, the most important attribute is that all of the time they think like business people.

Not every organisation has a separate treasury department or an individual with the title treasurer. If that is the case various people scattered across the organisation from the chairman downwards will be fulfilling the treasury role. However as business becomes more complicated and with increased risks facing all companies, people who fulfil the treasury role need the right qualifications and experience.

Every business has to be clear on its financial strategy and policy and it has to be able to answer to what Martin O'Donovan, the ACT's deputy policy and technical director, calls the "three critical questions in finance": how to decide what to invest in; how to raise the money to make those investments and how to control the total risk, including the financial risk, in the organisation?

The key tasks for treasurers today centres around these three issues of corporate planning. O'Donovan says: "The interaction of these questions – to which there is no 'right' or permanent solution – is what makes corporate treasury the most interesting and challenging of management topics." He explains that at the moment businesses are facing the potential for higher real interest rates, a shortage of both debt and equity capital, and the need to build in robustness into capital structures and the underlying business. The threat of increasing real interest rates and scarce capital are possibly the toughest of these challenges for treasurers.

Combine this with rising consumption and growth in demand for commodities, which could fuel inflation, and businesses and their treasurers are faced with new, difficult scenarios not experienced previously in their working lives.

O'Donovan says: "There is a heightened awareness of risk and whenever we talk to our members it is clear that the risk appetite of companies has tumbled. People are noticing risk much more than before the credit crisis." Risk experts such as treasurers are crucial in adding value by analysing and managing those different risks.

Financially, two ways to deal with uncertainty and become more robust are to have more equity as a proportion of capital – just as banks are going to do under Basel III – and to have more liquidity on hand, rather than assuming capital, bond or loan markets will be open and available when needed.

Michelle Price, ACT's associate policy and technical director, believes that funding availability is a looming threat facing companies. She says: "The big issue since the credit crisis has been problems over bank funding. And while this has got better, it is only really the largest companies which are funding with ease. Even substantial companies will be impacted by the lack of bank funding." And it is a situation that will only worsen, she warns. With banks having to hold more capital under rules imposed by Basel III, lending will become even more difficult. Price adds: "We know that capital will cost more and become scarcer but we don't know how precisely because the banks aren't telling their customers, mostly because they don't know themselves." Corporates face related challenges over the next few years, notably with changes to accounting standards on leasing and hedging. These changes should not impact business strategy but Price says that treasurers must ensure changes in report and accounts are understood by both the board and the investment community."

All of these problems ensure that treasury remains of great interest to the chairman, the chief executive and indeed the rest of the board. The role of the treasurer is coming under greater scrutiny, as companies strive to ensure those fulfilling the role have the right skills and experience. Like any professional association, the ACT provides qualifications which are seen as a benchmark for those who want to, or actually do, work in this field.

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James Lockyer, director of education and international development at the ACT, has seen an increasing desire by organisations to have the right people doing the treasury job; a trend accelerated by the financial storms of the last few years. He says: "Recall that corporate treasury activity takes place wherever the business strategy touches the financial markets. If you talk to those with knowledge of the treasury markets there is an underlying concern that too many people working for significant companies in treasury roles – even if they don't have treasury in their job title – are not as well trained or qualified as they should be for the task that they are performing." In particular he draws a distinction between being qualified – having sat and passed a rigorous benchmark of international professional competency – and merely having attended a training course or having a business MSc or MBA.

As the financial crisis has illustrated, one problem facing businesses as they organise their treasury operations is the enormous speed of change in businesses and in financial markets. Experience alone cannot get you through: change is often outside the range of experience, and frequently gives rise to substantial risk. That is when the breadth of professional education is called on. A company cannot afford to use a financial instrument or try to hedge in a "let's see what happens" manner. Lockyer says: "It's a way that could lead to staring into the abyss of financial disaster. Those organisations that invest time and effort upfront in qualifications and training can benefit enormously through reduced risk, improved control, lower cost and faster, better informed reaction to changes in the business and financial markets."

Companies that fail to devise and maintain a coherent corporate financial strategy run the risk of a loss of reputation as well as a financial loss and business disruption. In today's harsh climate such outcomes are unaffordable. And that is why more than ever before the role of the treasurer is now more high profile and played out centre stage.