Departments, functions and optimisation

Ian Magness of Esox considers the factors that influence treasury structures and, in turn, their influence on the functions these treasuries can perform.

It is important to state up-front that, although some treasury departments mimic others (perhaps as a result of a transfer of senior staff or the use of the same management consultants), there is very little overall consistency between the structure, cost or comprehensiveness of functions performed by the treasuries of companies with apparently similar financial requirements. Sample departmental diagrams are thus somewhat futile!

This article concentrates on the centralised treasuries of UK-based plcs. Aside from the major group issues that tend to be handled only at corporate headquarters, much will also apply to the UK-based treasuries of non-UK corporations, especially where a significant amount of the decision-making responsibility is delegated.

Typical structures

Table 1 gives a summary of the features of the various types of organisation, divided by size for the sake of comparison. The three groups are: Larger treasuries (8+ full-time treasurers); medium-sized treasuries (4–7) and smaller treasuries (1–3).

Reasons to be different

As noted above, little consistency exists between apparently similar companies. Functional teams, such as dealing, international treasury support or control, can comprise anything from zero to 20 professionals. The reasons for this are that each corporation's treasury evolves over many years by a range of factors that, in combination, create both the individual roles and the duties carried out within the departments. Factors, *inter alia*, include:

- industrial sector and its impact on key disciplines such as foreign exchange or funding;
- group financial statistics and their materiality to the share price (and/or the bonuses of the board of directors!). The issues to be considered include: balance sheet structure, size of debt/cash portfolio, overseas turnover, remittable profits and net assets, magnitude of cash flow, transactions and the associated charges;
- the history of a department, its people and its roles within the group, especially as perceived by the present board of directors;
- the finance director's perception of the importance of treasury management in general;
- the calibre, both technically and managerially, of the head of treasury. The importance of this cannot be overstated;
- the financial health of a group, which impinges on the available budgets. Allied to this is relative profitability of a group. Theoretically incorrect though this is, treasury management tends to be more neglected in groups with consistently large profit margins; and
- whether a group's present stage of development argues for changes in the calibre or size of the treasury team.

> Corporate treasury is still a relatively young profession, so any differences in treasury culture are hardly surprising


Ian Magness

The 'right' team

The first point to make is that I refer to the right team, not the right structure. In practice, structure usually reflects the skill and experience sets of the existing individuals, rather than pure functional necessity. So long as a structure does not actually impair the ability of a team to carry out its tasks (for example by introducing pointless bureaucracy), it is unlikely to be important. In my experience, whether there is, for instance, one deputy over five managers, or three deputies over three managers, is largely irrelevant when compared to the overall team's ability to deliver.

Now to get theoretical. It is possible to conjecture that each corporation, during any particular period, needs an appropriate array of knowledge and experience. I call this the 'critical mass of expertise'. In practice, this should mean, quite simply, that all of the treasury disciplines important to a group are professionally identified, quantified and managed, with regular review and time allocation as the relative benefits necessitate: Factors include:

- staff numbers, structure and costs should be reviewed periodically. The key issues to be managed need to be identified and staff requirements thus assessed. Companies should not only review present requirements, but evaluate 'what-if' scenarios on both potential business developments and the potential impact of key members of staff leaving;

- the calibre of staff is as equally important to plan as actual staff numbers. Over-recruiting can be as damaging as under-recruiting, since fast-track individuals get bored quickly and leave if developments do not occur or responsibilities accrue. As always, a balance needs to be achieved;
- the head of treasury may need to market the department's achievements to continue to achieve the budgets necessary so that they can stay a centre of excellence and to implement the planning referred to above;
- the time of capable staff should be available to evaluate not just group-level problems but the issues that impinge at operating company level, world-wide;
- all professional staff are kept busy most of the time but not so much that that they never have time to think; and
- sufficient staff time is available for occasional secondment to work of a project nature. Use of management consultants or interim managers is expected, however, during the inevitable times of executive overload. Indeed, if there is real doubt as to the long-term staffing needs, use of consultancy or interim resource may well be optimal.

If this state of perfection is achieved, ramifications would include:

- treasury time can be prioritised so that value-added can be optimised;
- the group's treasury profile in the banking sector world-wide is likely to be enhanced, a factor which should ultimately lower bank and interest charges;
- divisional directors will appreciate constructive input into the financial management of their companies. This will, in turn, raise the profile of the treasury and the awareness of its merits to other financial managers within the group; and
- general finance staff can be recruited

Typical centralised treasuries of UK plcs by size

1. Larger treasuries (8+ full-time treasury professionals)

There are approximately 25 UK-based plcs in this category. Features include:

a) People/positions

- The head of treasury may well be called 'director of…' and is likely to be a senior professional with operating board status within a group;
- the head of treasury's involvement in related disciplines, eg, taxation, may necessitate management responsibility for senior managers and teams within those areas;
- within the treasury as such, there are likely to be at least two deputy/assistant treasurers, and there may be several. Each deputy may be called treasurer,… and will have functional responsibility for one or more areas such as dealing/risk, funding, international treasury support, international cash management or systems and control. Each function may have a number of professionals including under-managers to the deputies as necessary. A classic, tree-root staffing structure may thus exist;
- within the structure, overseas domiciled treasuries may be appropriate, especially for giant or 'supranational' corporations. Traditionally, these were fully operationally staffed, as well as containing executives handling local financing, capital structure and taxation affairs. More recently, however, deregulation and advances in banking technology have aided global automation and centralisation. As a result, numbers of professionals employed overseas has reduced;
- an occasional variation is the split in the department into operations and strategic/planning domains, each headed by a deputy. In this model, the administrative, reporting or dealing activities are handled by a single team, while the other one is purely analytical and advisory. Again, within each team, under-managers may specialise in particular areas if the workload justifies. This model dovetails with the increasing instances of shared service centres (SSCs). In these situations, the 'operational' staff may be removed from the geographical location of the treasury altogether, such that the central treasury becomes a smaller strategic unit, comprising of generally quite senior professionals;
- another variation that increases headcount (although generally not at professional grades) is the structure in which the head of treasury is ultimately responsible for an operational cashiering/money transmission team handling great numbers of national or international receipts and payments. This is not common but, again, instances are increasing via linkages with SSCs;
- treasury control functions may contain a large number of accountants, generally qualified. Their duties are likely to include the preparation of the accounts of special purpose vehicles set up to facilitate tax-efficient external funding or internal capital transfer mechanisms for the groups world-wide. Treasury accountancy roles tend to be full-time and specialised; and
- treasury systems specialists may be several in number. Unsurprisingly, this is a growth area, given the work necessary to evaluate the latest financial systems, banking technology and e-commerce possibilities. As with medium-sized groups, a notable recent feature has been the introduction of purely systems-trained executives into this arena.

b) Functions

- The head of treasury may be in charge of areas like tax, insurance, pensions and, possibly, corporate finance or specialised finance such as project finance;
- the number of professionals allows the treasuries, as such, to function across the full range of disciplines, with individuals employed full-time within the specialised areas;
- dealing and risk teams may not only contain material numbers of staff, but they may combine markets experience with high-level quantitative skills. Occasionally, the market position of the corporate will facilitate arbitrage opportunities and some corporations allow controlled (generally!) speculative activity to occur; and
- an important difference between these and smaller treasuries is the potential to provide support staff to overseas-domiciled operating companies. Support is provided across a range of activities from risk advisory to corporate finance execution.

in from elsewhere in the group for experience purposes, without damaging the overall technical performance of the team. This can occur even at the head of treasury level, and indeed has actually done so in many of the UK's largest groups. Allied to this, it is no surprise that executives from many of the UK's better-run treasuries are promoted into senior divisional finance roles – their reputations have already been established.

Conclusion

Very many UK corporations have highly professional treasury teams producing excellent results. The structures and compositions of these teams vary greatly, due to both cultural and industrial factors, but it is only the overall results that really matter.

Unfortunately, it is not that uncommon to find treasuries in which the teams are clearly either understaffed or simply do not contain executives of the necessary experience or calibre for the tasks at hand. Subsidiary support and analysis is frequently missing, however, group or risk issues can be under-managed as well. Critical mass is not achieved, which, at the very least, is risky for the companies concerned. Bankers have even been known to take advantage!

Corporate treasury is still a relatively young profession, so differences in treasury culture are hardly surprising. That said, the variances found between corporations go well beyond simple differences in emphasis between, say, risk and funding. Some things take years to change, especially people's perceptions. The treasury profession still has a lot of work to do! ■

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2. Medium-sized treasuries (4–7 full-time treasury professionals)

There are approximately 125 UK-based plcs in this category. Features include:

a) People/positions

- the head of treasury may occasionally be called director of… . He or she may be a senior professional with operating board status within a group, but is more likely only to have equal status with the other direct reports to the finance director;
- there is likely to be at least one deputy/assistant treasurer, possibly two. Although they may be called treasurer... this is less likely. Whatever their titles, each is likely to have more diverse functional responsibilities than would be found in the larger treasuries, although there may still be a split between areas such as dealing/risk and funding or balance sheet management issues;
- the under-managers, analysts and transactors may specialise, but most would tend to have broader briefs, turning their attention to whatever topics are important at any one time;
- structures vary from flat (that is, all executives reporting directly to the head), to vertical, (each executive reporting to the management level above). At higher staff numbers, a tree-root structure may again be present. It must be reiterated, however, that all variations can, and do, exist; and
- treasury control and treasury systems tend to fall within the remit of a treasury accountant, who may be full-time, reporting to the head of treasury, or part-time, reporting to financial control. Full-time treasury accountants may well have other, more general, treasury management responsibilities. Systems specialists are increasingly being brought in, altering a traditional role of treasury accountants.

b) Functions

- the head of treasury may again be in charge of areas like tax, or specialised finance, although the instances would be less than in the larger organisations; and
- the staffing levels, when combined with the magnitude of issues presented by the group's balance sheet and turnover, will often closely define the roles that the treasury can play. For example, a four-man team within, say, a £750m turnover group is likely to have enough staff time both to handle group affairs and to visit the operating companies and identify their major treasury issues on a regular basis. The same is unlikely to be true, however, of a £2.5bn turnover group with the same number of staff. In this latter case, staff time is likely to be dominated by major fundings and other group issues, with perhaps one member of the team working full-time on operational matters such as dealing. Very little time would be available to support directly the financial workings and risks of the subsidiaries.

3. Smaller treasuries (1–3 full-time treasury professionals)

There are approximately 350 UK-based plcs in this category, with perhaps 100 of these featuring just one full-time treasury professional. Features include:

a) People/positions

- the head of treasury will often be called treasurer, but could be called treasury manager or similar. He or she will probably report to the finance director, although there may be an intermediary. His or her status, especially in the case of one-man-bands, may be several tiers below board level, depending on the perceived importance of the position; and
- below the head, structures are generally vertical, typically with a significant experience gap between number one, two and three, if indeed the latter two exist.

b) Functions

- the head of treasury may solely manage treasury but, especially in the cases of one-man-bands, may combine financial control responsibilities;
- all treasury staff will be jacks-of-all-trade. Advanced systems or risk management techniques, for instance, may add little to a small group, so they will not bother the staff unduly;
- in some groups where the treasurer is a relatively junior individual, responsibility for areas such as funding may be retained by the finance director; and
- accounting and systems may be handled in the treasury, but help from elsewhere is more likely.