E-business and the treasury of the future

As businesses move into a fast-changing environment a new model of treasury organisation needs to be developed to keep pace, says Richard Raeburn of KPMG.

The 'best in class' companies – both in the UK and internationally – apply a model of treasury organisation that corresponds to 'good practice'. Most other companies will benefit from replicating the model's broad principles while not losing sight of the need to tailor it to reflect the real differences that exist between companies.

However treasury, in common with all areas of business, is working in an environment that is changing rapidly; the organisational implications of this are profound. Companies today therefore face a dual challenge:

1. how to ensure that they can benefit from the experience and maturity of the model of good practice – achieving a fast track to capturing its main strands; and
2. how to develop the new organisation model so the best advantage possible is taken of this new environment.

The good practice approach

Today's good practice approach to treasury organisation builds on the extensive practical experience that exists of managing the function. Although the main elements are familiar it is important not to lose sight of them, not least so there is a reference point as we help treasury respond to what is happening: there are some truly radical challenges emerging that are going to redefine good practice in treasury management.

Among the elements of established good practice, the following are the most fundamental:

- the essential driver of treasury organisation should be the board-approved expression of its objectives, policies, risk-appetite and control framework for treasury. By articulating these expectations and requirements for treasury, the board drives the next level of practical decisions, such as the allocation of (scarce) resources to manage and execute the strands of the treasury processes;
- by addressing risk-appetite, the board will have largely dealt with the question that has vexed finance directors over the years: should treasury be a profit or a cost centre? Nowadays many recognise that this is probably the wrong question. Few companies really want treasury to be a profit centre (and even fewer once the meaning and risks of this proposition are properly understood); but similarly few expect their treasury function to act in such a way that no discretion at all is enjoyed in the management of risk (so that all exposures are eliminated when identified and no positions are knowingly carried);
- with the profit/cost centre dilemma addressed, good practice now aims to give treasury the potential to add value by managing risk. Companies have recognised that the professional management of treasury is enhanced by allowing scope to carry positions (so that for instance marketable amounts of currencies can be accumulated prior to dealing), provided that appropriate controls are placed around the processes (such as limits and monitoring of 'maximum likely losses'). Treasury is therefore commonly established as a value-added service centre, to which skilled resources are committed in the knowledge that there will be real benefit for the business;
- treasury is typically organised as a centralised function. This brings a concentration of technical expertise and facilitates a focus on consolidated cash flows and risks, thereby driving through the benefits that can be found from sensible group-level aggregation. Centralisation is also key to the management of group bank relationships and the implementation of an appropriate control environment; and
- although the overwhelming emphasis is on centralisation, removing responsibility from the operating businesses does bring disadvantages: local management may have more difficulty in identifying treasury risk within its business and ensuring that the commercial implications are correctly handled; and local financial staff may miss the motivational benefits associated with real responsibility for dealing with the banks.


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The treasury organisation model

Drawing on these elements of good practice, treasury today is typically organised around front, middle and back office roles, with a strong emphasis on the collection of data (on risk, liquidity and banking commitments). The information available to treasury is processed and analysed, providing the basis for dealing decisions, driving risk-based management reporting and supporting the operational control framework.

Those treasuries that have successfully implemented such an organisational model very often have well-established links with the underlying businesses; they are perceived to be staffed by

FIGURE 1

The treasuries of the future

1) There will be an increasing emphasis on treasury being staffed so that it can contribute strategically across the broad spectrum of 'new' treasury – a fusion of traditional concerns over liquidity, risk and banking relations with the new e-business environment. At the same time there is going to be less need for core skills to undertake and manage transaction-intensive activities within the front, middle and back offices. Much of this transaction burden will be absorbed within more integrated systems, in turn freeing resource to address more strategic challenges.

2) The future treasury will therefore have more of the characteristics of a remote control room, reviewing cash flows (forecast as well as actual), the measurement of risk that is arising within the operating businesses and the transactional execution taking place in many different areas of the business. Straight-through flows, for instance, of risk positions from where the exposure arises direct to a panel of banks with which the hedging transaction is auctioned are technically feasible and require no routine treasury intervention. The control room team will be looking for exceptions and monitoring how well the policies are working.

3) The new treasury organisation will need to talk the language of e-business, specifically systems integration. In contrast to the role in today's treasury for a systems specialist who maintains the treasury management system and the other stand-alone applications, a prime need will exist for the individual who understands how treasury's information and control requirements can be met from wider corporate systems.

4) Mastering what the corporate systems can do for treasury will be closely inter-linked with appreciation of the underlying businesses and the capability to guide them wherever relevant (for instance in the case of establishing an SSC, by ensuring that standard group parameters are applied to the payments and receipts interfaces between internal and external systems). Treasury staff will therefore need to see their relationships with the businesses as paramount, which suggests that any treasurer focusing only on the internal intricacies of the department, will have a much more limited role in the future.

'experts', who add value for their internal customers while protecting the group's consolidated risk and liquidity profile and nurturing stable external institutional relationships.

Although such an approach to treasury organisation (and the delivery of treasury services) is considered to embody good practice it is often less than perfectly implemented. The risk then is that it is identified with a culture which at worst is seen as an ivory tower or 'black box' treasury: an organisation where staff fail to build links with the businesses and where strategies for management and execution of transactions are poorly communicated.

So what are the changes taking place and therefore the challenges creating the opportunities to redefine the treasury organisation model? A few years ago the answer to this question might largely have focused on the environment of corporate downsizing and the pressures on treasurers to operate on ever-leaner cost bases. Less than a year ago the answer might have concentrated on how moves towards shared service centres (SSCs) and the use of enterprise resource planning (ERP) systems affects the availability of treasury information and the potential for systems integration.

The impact of e-business

The answer today picks up both the significant implications for treasury of SSCs and ERP, and the profound impact e-business is going to have on the traditional view of the treasury function. Lest there be any doubt in treasurers' minds it is important to stress that the scope of e-business goes far beyond the much narrower world of e-commerce, which is itself introducing great change in the old models of how goods and services are ordered, paid for and delivered.

E-business can be defined as the 'net-enabled' knitting together of business activities to create value and exploit market opportunities in the connected economy. Companies are responding in different ways to the challenge of e-business but what this (as well as SSCs and ERP) means for treasury can be summarised as:

- business processes in the core purchase-to-pay and quote-to-cash cycles are becoming much more concentrated and integrated within an IT environment;
- concentration itself is making it far easier for activities that have been seen as mission critical for treasury to be handled away from the centre or even outsourced, without jeopardising service standards and control. In both cases this can mean fewer treasury specialists working in the centre of a group;
- the new IT environment is transforming the speed with which information for treasury (on liquidity and risk in particular) can be provided and facilitating consistent standards of format and quality that have historically been practically impossible (finally eroding the domination of spreadsheet downloads and manual movement of data);
- decision-making is being based on shortened timescales; and
- the success of treasury in adding value to the business is becoming much more transparent as a consequence of each of the above.

Implications for the future

The implications of this for the organisation of treasury are not yet widely understood. Clear pointers suggest that e-business enabled good practice is going to require that treasuries are organised around certain characteristics (*see Figure 1*).

The treasury of the future will need an organisation that adheres to many of the principles of today's good practice – defining objectives, policies and controls and fostering a culture in which value is added – but the development of strategy and monitoring its application will take on much greater importance. This will demand many of the skills that are embedded into treasury teams today but will also stretch these more deeply into the business process and systems arenas. If this is, as we expect, at the expense of less hands-on transactional activity, many should welcome the new organisational approach. ■

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