Shareholder value – the buzzword of the 1990s

Shareholder value is undoubtedly the financial buzzword of the late 1990s, as companies seek to deliver value to shareholders in line with their increasing expectations borne of greater knowledge, improved communications and access to markets. In a recent survey of leading CFOs, over 75% saw the implementation of shareholder value across their business as their number one priority. Many leading MNCs have already implemented value-based management frameworks at a business unit level. But many business managers are now asking: what about treasury and the rest of the finance function?

Treasurers are coming under increasing pressure to demonstrate, using a framework consistent with those in the other areas of the business, whether their activities create, protect or in fact destroy value for the organisation as a whole.

The potential of treasury

Treasury, through key activities, such as risk management, liquidity management and debt management, has the potential to impact significantly the key drivers of shareholder value. The treasury function also has a key role to play in supporting business managers in enhancing value. However, the challenge for many companies and their treasurers is how to put the company's shareholder value objectives into operation in their day-to-day activities and decision-making processes to demonstrate this potential. A key element of this is the ability to measure/quantify this contribution on metrics consistent with the rest of the organisation.

In this Spotlight we introduce some fundamental concepts for consideration and focus on a few of the key activities where treasury can demonstrate its ability to create value. The concepts provided in this series for structuring treasury operations to align strategy, practices, systems and reporting to focus on these activities will hopefully provide a framework for identifying, monitoring and measuring the value contribution of other activities conducted by treasury.

We begin with **Ruth Bender**, who explains why the concept of shareholder value is so important and the different methods for measuring it. Next, **Ian Simpson** of Diageo plc provides leading-edge thinking on how risk management strategies can develop the optimal balance sheet structure for creating value. **Gunnar von Koch** takes us through the role of treasury systems in helping corporates deliver shareholder value objectives. **Paul Hayman** from KPMG Consulting gives some useful advice on managing shareholder expectations by communication.

Roderick Roman of Ernst & Young shows how effective tax planning in relation to value-driven transactions can ensure that tax is not a barrier to achieving full value creation potential. Finally **Tom Gunson** of PricewaterhouseCoopers details how treasury impacts the drivers of shareholder value and how many leading companies are structuring their treasury operations to focus on key decisions and activities that enhance shareholder value. His colleague **Ian Clark** runs through a practical example of these key decisions/activities.

This month's Spotlight should be topical for all who work and are involved in treasury. With many of the world's leading corporates already talking about how their treasury can contribute to shareholder value, we hope that this series of articles will broaden the debate. ■

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