

Stay Strategic in Times of Crisis by 'Bulletproofing' Treasury

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How can treasury maintain its strategic focus even in the most challenging times? This article explains the concept of 'bulletproofing' treasury and what steps treasurers can take to make sure they are always able to manage their core functions.

As the financial 'control centre' of most organisations, treasury plays a crucial role in managing a variety of tactical and strategic missions. When unplanned material events occur, treasury can be pulled entirely into a tactical mode, and important strategic matters can, and often do, grind to a halt. But if treasury groups proactively engage in comprehensive planning and process evaluation - an approach I call 'bulletproofing treasury' - they can maintain their strategic focus, even during the most challenging times.

Risk Management and Business Continuity

In the aftermath of the 9/11 terrorist attacks, for instance, treasury managers - especially those at large, decentralised organisations - faced a number of immediate, tactical challenges. With air transportation shut down in the US, and postal operations faltering in some locations, treasury managers had to quickly shift their focus exclusively to some basic, everyday issues, such as ensuring that paychecks were distributed, identifying ways to move funds and verifying that collection processes were in fact functioning.

Later, with the threat of more terrorist activity looming, many treasury managers were forced to develop from scratch a variety of backup plans to ensure the continued flow of cash and the liquidity their firms needed to maintain operations. Priorities drastically changed overnight.

Many other events of the last decade have had a similar effect, causing treasury and other financial functions to pause and shift their attention away from their key strategic responsibilities. When such events occur, treasury managers can find themselves operating in a reactive mode and essentially 'fighting fires'.

Do you remember the fire drill that was Y2K? And don't forget the impact on treasury of events such as the Sarbanes-Oxley Act (SOX), as well as a variety of natural disasters, including Gulf Coast hurricanes Katrina and Rita.

In fact, as you read this today, your company is likely still focusing on the concerns spawned by the sub-prime mortgage debacle and the drastic shifts in the liquidity crunch impacting many traditional sources of funding and investment. This latest in a decade-long series of earth-shattering events to hit corporate financial functions has left companies that relied on commercial paper and auction rate securities scrambling to tap into other affordable funding sources. But if that has become your top priority, what has happened to the other strategic projects you were working on?

What's at Stake?

Large-scale, high-impact financial events can require a significant investment of treasury time and resources. Moreover, the resulting shift in focus can cause a direct and immediate effect on treasury's ability to serve the organisation by fulfilling its other core responsibilities. The cost can be enormous when you consider the type of strategic activities that these events can distract treasury from pursuing.

For example, today many companies are involved in critical strategic initiatives, such as the design and rollout of new global payment strategies. A project of this scope may involve re-evaluation of all the different ways that payments come into your organisation.

Treasury plays a critical role in a variety of critical, strategic efforts, focusing on the optimisation of processes, structures and policies. These issues require time and strategic focus. Optimisation efforts of this magnitude have long-lasting implications for businesses and may affect the overall profitability of a company for years into the future. Issues of this caliber cannot take a back seat to tactical activities. When treasury abandons key strategic initiatives to 'put out fires', companies and their shareholders suffer.

'Bulletproofing' Treasury

If there's anything that the last decade has taught us, it's that major events affecting the financial community, such as Y2K, 9/11, SOX and the sub-prime mortgage crisis, will continue to pop up in the future. And when they do, they will once again challenge the ability of companies to access liquidity, process payments, control assets, provide key information and records, and support treasury and financial needs. Accordingly, strategic treasury departments need to act to minimise the impact these crises have on their organisations. One answer to this is an approach called 'bulletproofing'.

Bulletproofing treasury requires a tightening of all treasury-related processes, practices, technology, staffing and policies to ensure that each element is operating at peak performance with maximum versatility. It also requires a re-evaluation of your entire treasury from the ground up. The following points highlight some specific 'bulletproofing' objectives:

Establish 'best in class' treasury processes and procedure

Each day, treasury managers are involved in certain core activities, including evaluating liquidity and determining their company's cash position, evaluating risk, and making investing and borrowing decisions. Part of bulletproofing is looking at how you perform these functions and ensuring that you are using best of breed tools and best practices that enable you to perform these functions as efficiently as possible. Ideally, these processes should be highly automated so they take up only a small portion of a treasury manager's day, leaving sufficient time for strategic matters.

Implement 'best of breed' treasury tools and technology and best practices

An important aspect of establishing 'best in class' processes is using appropriate technology to harness the information critical to treasury decision-making. The tools you need might include treasury workstations, enterprise resource planning (ERP) systems, stand-alone foreign exchange, debt or investment packages, bank-to-book reconciliation systems, bank investment portals, or other online banking systems.

How flexible are you today? If you are concerned about the ability of information technology (IT) resources to help you respond to new opportunities, consider leveraging application service provider (ASP) technology. If you use an ASP model for treasury workstation or other treasury systems, you place the onus on the provider to maintain an up-to-date service.

Ensure that the company's banking structure, services and support are of the highest quality
Look to simplify your banking structure and maintain the optimal size and configuration. Your goal should be to use just enough banks to provide you with effective, automated cash concentration up to a central point. In addition, keeping the number of your bank accounts to a minimum will reduce work across all aspects of treasury. It will make it easier to collect and disburse funds, set your cash position, monitor balances, reconcile accounts, and move and consolidate funds.

Having the right banking partner is also important. Make sure you are dealing with banking partners that understand your needs, give your company the right level of attention and offer state-of-the-art services - all at a reasonable price.

Develop optimal treasury organisation and staffing from the standpoint of structure and versatility
From an organisational perspective, you want to achieve as much centralisation as the structure of your company will allow. If you have a global structure and a lot of activity going on worldwide, that might mean establishing regional treasury centres in Asia, Europe and the US to deal with differences in time zones, banking practices and laws.

However you structure treasury, bulletproofing requires you to ensure that you have the right level of staffing in each location, with the right oversight and supervision. It also means having staff that are well trained, with a sufficient programme of cross-training in place to ensure others can step up to the plate in difficult times. Effective training will also ensure that staff follow best practices and understand their roles and responsibilities.

Having a strong organisation and well-trained (and cross-trained) staff in place will prepare your organisation for a number of potentially difficult scenarios, including possible fallout from current and future economic pressures. Difficult economic times can and may lead to future staff cuts and other cost-cutting measures. If the current economic problems turn into a full-blown recession, and you've effectively bulletproofed your organisation and staffing, you will be prepared to handle even the most difficult scenarios.

Put clear, effective policies in place

Are your policies current? Do they address potential developments such as a recession or significant, future volatility in interest rates? Do they give treasury sufficient authority and flexibility, or do they require lengthy delays for board of directors or executive-level approval of certain decisions? A bulletproofed treasury has examined and enhanced its policies to provide effective management authority and sufficient flexibility for proper strategy execution.

How Do You Get Started Bulletproofing?

Wholesale changes to your treasury structure, processes and tools can't be made overnight. They will require an investment of both time and money. But the right time to make these investments is now, before any new major crises erupt and while you have the time and resources available to focus on these initiatives.

Generally the place to start is with treasury organisation. It's much easier to evaluate processes and banking and technology structure if you have the right people in the right places to help you do that.

If you don't have the internal resources to accomplish all of your bulletproofing work in-house, look to your external partners for assistance - your bankers, vendors and consulting resources. A moderate investment of time and capital now will pay great dividends in the months and years ahead.

Once you have your bulletproofing team in place, it's generally best to focus on treasury processes, and look for opportunities for streamlining and making those processes more efficient. When you find a process that needs tightening, the solution could involve changing your banking structure, bringing in new technology, or both.

Keep Treasury Moving Forward

A solid foundation of fundamental processes, practices, policies and structure is essential to enable treasury to address its core responsibilities and still 'keep its eyes on the ball', while effortlessly addressing all other peripheral issues.

A bulletproofed treasury will keep your department focused on its core mission. It will allow you to achieve organisational goals on time and on target. And it will lead you, your department and your company to a successful future.