

## Executive Summary

There are some clear moves by the industry to redefine treasury as an enterprise wide process and no longer as a single department within their companies. The profession is maturing and making great strides in bringing more value-added insight into the financial risks facing business today. Rapid changes in technology, regulation and the financial landscape have redefined the role and importance of the treasurer. Many companies have transformed their treasury organization, processes and systems with the objective to reduce complexity and to improve efficiency and effectiveness.

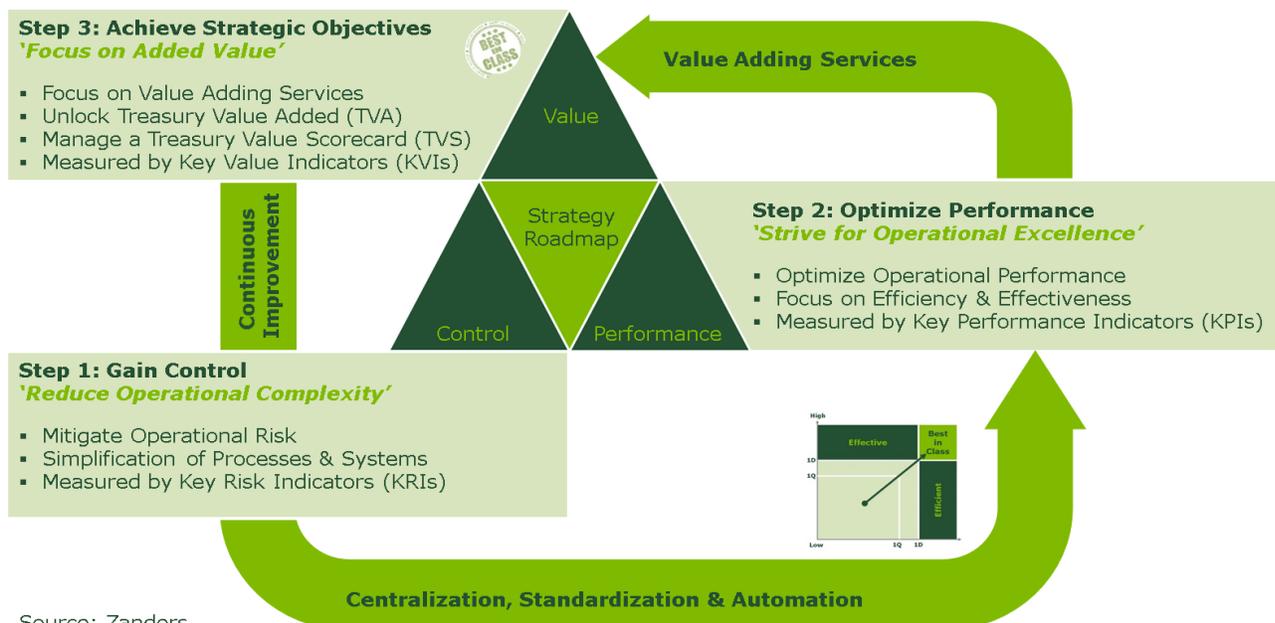
83%

Percentage of corporate treasurers that play a greater strategic role compared to five years ago and expect this trend to continue

Source: Strategic Role of Treasury (AFP, 2014)

This whitepaper is authored by Zanders in association with the Association of Financial Professionals (AFP). It is about 'unlocking treasury value and how to turn treasury insight into business impact' and provides readers with practical information, strategic guidance and valuable insight from three different perspectives:

- This whitepaper starts with the introduction of the conceptual methodology of **Treasury Value Added (TVA)** and shows how this methodology aligns with the overall corporate objective of shareholder value creation. In the second section a description is included about the treasury strategy and organizational model that is required for a 'value-adding treasury center' and how to integrate treasury with the business to become a strategic business partner.
- The third section continues with a practical application and overview of treasury metrics, KPI's, scorecards and dashboards that are currently in use at many companies. This overview provides insight in the 'current best practices' of treasury performance and control, but also highlights the areas for further development and improvement of operational excellence.
- The fourth section of this whitepaper combines the insight and perspectives of the previous chapters and provides strategic guidance for implementing a 'treasury value framework' with the objective to become a best-in-class global treasury organization that will have a real business impact. This final section is focusing on 'next practices' for strategic enablement and provides a framework for measuring and managing treasury value as displayed in the picture below.



Source: Zanders

It is our market observation that best-in-class companies are currently moving towards a globally centralized **'transaction hub'** to benefit from analyzing transactional treasury data and deliver (real-time) data analytics to improve cash flow forecasting and perform advanced scenario and cash flow-at-risk analysis that provides insight into the potential impact of financial risks.

Best practice at many multinational companies is to align their corporate treasury activities with the overall corporate objective of shareholder value (SHV) creation. However, in this context, it is also relevant to mention that different treasury areas might have different SHV objectives:

- **Increasing value** is the primary objective of the core business and senior management. Treasury can support this objective by increasing SHV through optimization of the financial supply chain, working capital and cash management. The most widely used measure of cash flow is the net operating cycle, or Cash Conversion Cycle (CCC). This represents the time difference between cash payment for procurement and cash collection for sales. The CCC indicates the company's ability to convert its resources into cash. Because this number effectively corresponds to the time that cash is tied up in operations and unavailable for other activities, senior management generally aims at a low net count.
- **Protecting value** with financial risk management, focusing on market, credit and liquidity risk, generally results in a reduction of the volatility of earnings and cash flows, which leads to a lower variance of SHV. This not only means that SHV is moving less, but more importantly that low values occur with a smaller probability than without hedging. Secondly, corporate hedging can increase SHV through the reduction of transaction costs. By lowering the likelihood of bankruptcy, the expected cost of financial distress is reduced and the debt capacity is increased.
- **Optimizing value** with corporate finance activities is mainly focusing on achieving an optimal capital structure where financial leverage and the related credit rating are optimized. This approach results in a minimum WACC and maximum SHV. One of the main advantages of financial leverage is the reduction of the Effective Tax Rate (ETR), however this can only be achieved within the boundaries of shareholders' expectations and their required return on equity to compensate for additional financial risk.
- **Catalyzing value** with the implementation of integrated treasury technology, which improves the efficiency and effectiveness of the global treasury operations. It is a well-known expression to say 'Cash is King' but the fast development and advances in technology solutions will enable a corporate treasurer to analyze a large amount of transactional treasury data and to provide real-time data analytics. Therefore in the near future we expect that it will also become very common to say 'Information is Queen'.
- **Communicating value** is very important to manage the expectations of internal stakeholders, such as senior management and the business, and external stakeholders such as investors, rating agencies and banks. It is not only relevant to provide in-depth insight into earnings and cash flow volatility that has a smoothing impact on SHV, it is equally important to give insight into the value of treasury and the positive impact on the overall corporate objective.

To summarize, the role of the corporate treasurer has been dramatically evolving since the financial crisis. There is renewed recognition of the importance of traditional treasury activities, while at the same time treasurers are being asked to play a more strategic role and unlock the value of treasury. With this in mind, Zanders is pleased to partner with the AFP to produce this whitepaper. It indicates that the role of the treasurer is already undergoing a fundamental transformation. Most treasurers currently devote less than a quarter of their time to managing their teams and day-to-day treasury operations in order to focus on a new and broader set of responsibilities including communicating treasury value. Those companies that embrace this transition and position themselves to take advantage of this improved analytical capability will have an opportunity to make better strategic decisions. We hope you will find this whitepaper informative and useful.

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