



# 3 Key Areas Where CFOs Say Treasurers Need to Be More Strategic



Few functions are more fundamental to the corporate enterprise than treasury. Few have a longer history, either. Managing cash and liquidity, along with all attendant processes and risks, have been critical undertakings for as long as there have been businesses. And the importance of having a good treasury function has only accelerated in recent years as business enterprises have become increasingly complex.

So why do so few organizations excel at it?

A new CFO Research Services survey of more than 150 senior financial executives in a wide variety of industries—conducted in collaboration with Kyriba—finds that only 8 percent say their treasury function is operating at a best-in-class level. In fact, nearly half see their treasury functions operating at an average level.

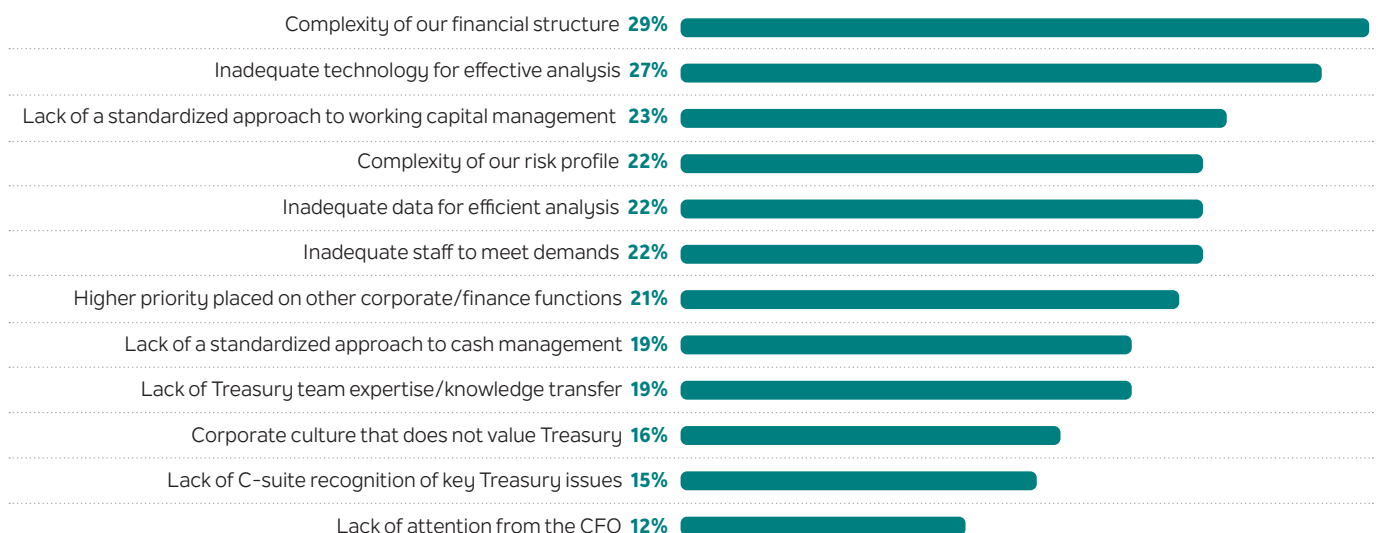
That's a problem. As professional services firm Ernst & Young noted in a recent report on treasury management systems, "Finding the right response to the right questions on the treasurer's and CFO's agenda can make the difference between a thriving company with a solid credit rating and an organization struggling with liquidity and credit downgrades."

The challenges to doing better are many, but the top three, cited by about a quarter of all survey respondents, are (1) the complexity of their organization's financial structure, (2) inadequate technology for conducting effective analysis, and (3) a lack of a standardized approach to working capital management. See Figure 1.

What's interesting about those answers is that the first of those three challenges can be addressed by dealing with the second and third. It's no surprise to anybody in the treasury function, of course, but many treasury operations still rely on spreadsheets for much of their work. They are electronic spreadsheets, to be sure, but still a tool whose paper roots trace back thousands of years. And even electronic spreadsheets remain prone to a laundry list of shortcomings, highlighted by version control issues and a broad susceptibility to errors associated with manual data entry.

In fact, only six in 10 survey respondents say their organizations make use of a dedicated treasury management system, the sort of system that Ernst & Young credits with being "at the forefront of driving the automation of treasury functions."

**FIGURE 1**  
**CFO Listing of the Largest Challenges Working Against Effective Treasury Management**



# Three Key Areas of Need: Risk, Cash, and Working Capital Management

All this suggests that treasurers and their organizations have a vast opportunity to do better. The survey respondents are clear, too, about where CFOs see the greatest needs. By a comfortable margin, they consider risk management, cash management, and working capital management the three key areas where treasury needs to be much more strategic and do a much better job of supporting business objectives.

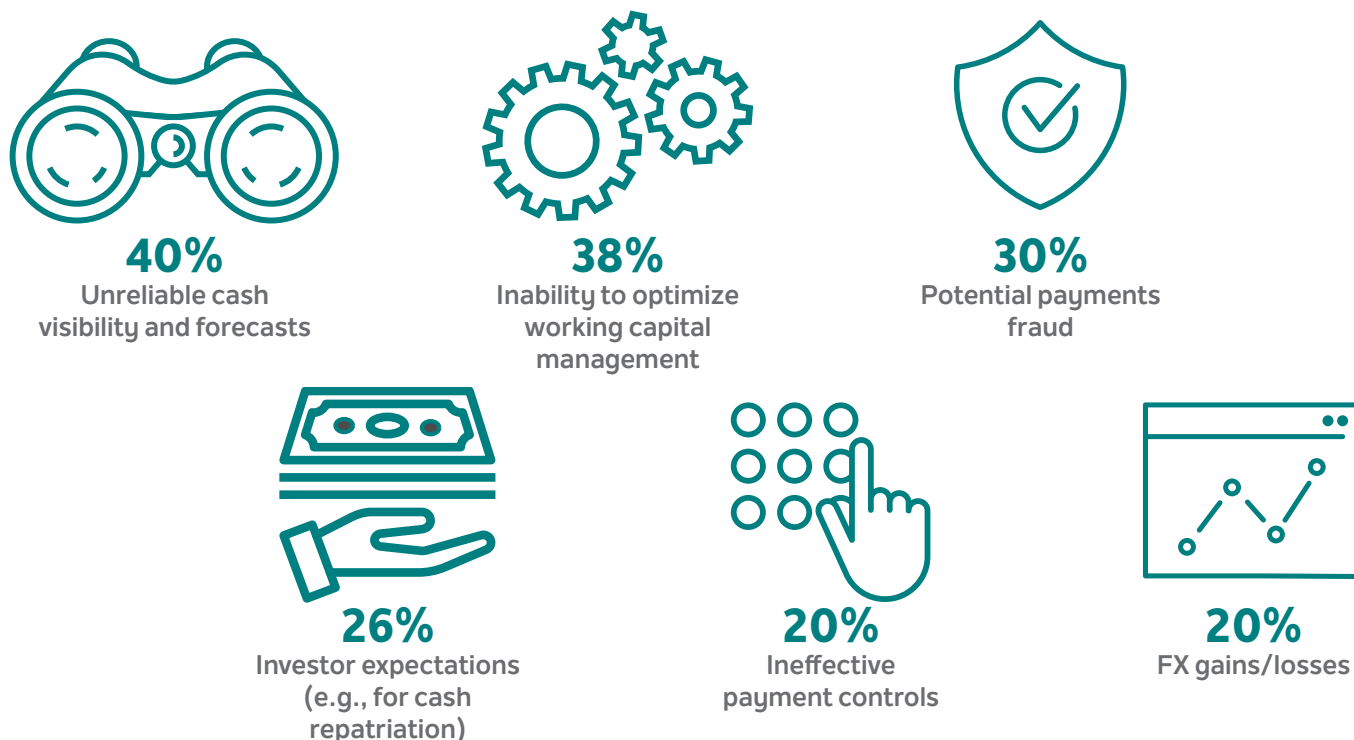
To be even more specific, 43 percent of survey respondents say treasury needs to do a better job of supporting business objectives in the area of risk management, 40 percent in the area of cash management, and 35 percent in the area of working capital management. About a quarter also see room for improvement around payments management, liquidity management, and data visualization and reporting.

Risk management—including managing liquidity risk—has been viewed with greater urgency by many organizations ever since the 2008 financial crisis, when many sources of credit dried up. Since then, new regulatory measures adopted to prevent a repeat of the crisis have added to the complexity of the treasurer's risk management challenges. And even though the financial crisis is fading further into the rearview mirror, a study by The Global Treasurer just two years ago found 44 percent of treasurers still concerned that their risk management performance was mediocre or poor. The study added that this was particularly relevant at organizations using spreadsheets and enterprise resource planning software for risk management rather than dedicated treasury and risk management systems.



To be fair, treasurers have notched some wins over the past decade. In its 2018 US Working Capital Survey, for example, the Hackett Group found that the top 1,000 U.S. companies ended 2017 with a stronger working capital position than they had at the start of the year, in part by improving their days payables outstanding. They did this despite a turbulent environment that included rising interest rates, accelerating merger and acquisition activity, and climbing prices for raw materials. Still, The Hackett Group said, those top 1,000 companies “left more than \$1 trillion (in working capital) on the table and ignored a proven opportunity to increase profits by as much as 20 percent.”

For CFOs, shortcomings in the treasury function have real consequences for the enterprises they help lead. Forty percent of the respondents to the latest CFO Research survey say unreliable cash visibility and forecasts are the biggest area of potential concern emanating from their treasury function as it operates today. This is because accurate and timely cash forecasts are essential to optimizing capital structures, thereby enabling better decision making for both short- and long-term needs. An additional 38 percent of CFOs cite an inability to optimize working capital management, while more than a quarter list concerns about potential payments fraud and investor expectations. In fact, 17 percent of survey respondents say their CFO would not agree that their treasury organizations are able to provide cash visibility forecasts, risk exposure data, or insights related to global compliance that are extremely effective for the stakeholders who receive them. See Figure 2.

**FIGURE 2****The Treasury Issues That Cause the CFO the Most Potential Concern**



## A Way Forward: The Importance of Technology and Communications

While most of the world's major economies are growing—with growth particularly strong in the U.S. right now—challenges related to managing risk, cash, and working capital are not going to disappear. Among the many variables treasurers are wrestling with now, and will likely be wrestling with heading into 2019, are higher oil prices, new trade tariffs, rising interest rates, and political uncertainty.

CFOs and other senior finance executives see two key ways that treasurers can help themselves and their organizations. One is by embracing technology that can help make their jobs easier and allow them to do their work with greater efficiency and deeper insight. The other is by building a better rapport with the CFO.

A third of the respondents to the CFO Research survey say CFOs want to see treasurers substantially improve the technology solutions their organizations are using to match industry best practices around cash management. A quarter or more also want to see better use of technology for data visualization and reporting, payments management, working capital management, and risk management. See Figure 3.

### FIGURE 3

Most Frequently Cited Areas Where CFOs Say Treasury Must Improve...

| ...to Support Business Objectives | ...to Be Much More Strategic             | ...to Match Technology/Solutions Best Practices |
|-----------------------------------|--|---|
| Risk management                   | Working capital management               | Cash management                                 |
| Cash management                   | Risk management                          | Data visualization and reporting                |
| Working capital management        | Cash management                          | Payments management                             |
| Payments management               | Payments management                      | Working capital management                      |
| Liquidity management              | Real-time fraud prevention and re-sponse | Risk management                                 |

Meanwhile, when asked what one thing treasurers should do to develop a better working relationship with their CFO, 50 of the 116 survey respondents who answered focused on improving transparency and communications.

Not surprisingly, it's not that CFOs just want more face-to-face meetings with their treasurers—although some do. More commonly, survey respondents indicate that the treasurer needs to be doing a better job of communicating with the CFO in a timely fashion, bringing insights that would allow the CFO to respond more quickly and precisely to issues of critical importance—changes in the cash flow forecast, for example.

All this reinforces the survey's findings that CFOs are looking to their treasurers to implement technologies and processes that will enable more timely insight into how their enterprise is functioning in key areas like cash management, risk management, and working capital management. In fact, one survey respondent explicitly urges treasurers to embrace “more automation that raises red flags when necessary,” while another advises that they “have all their data analysis reports right before giving the CFO a report.”

The bottom line is that CFOs are looking to treasurers to be a partner who doesn't create problems for the enterprise, but rather helps to prevent them, quickly identify them when they do arise, and then solve them—protecting the organization from loss. Even more, CFOs want a partner who can help them accelerate the organization's growth, unlocking opportunities that in the past might have been overlooked.

A tall order? Perhaps. But certainly achievable. By equipping themselves and their organizations with the right tools, implementing the right processes, and keeping open the channels of communication, treasurers have ample opportunity to become the business partners CFOs want them to be.



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**For more information, visit [www.kyriba.com](http://www.kyriba.com).**

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