Corporate Treasurers Council®

CTC GUIDE

Leadership in Treasury: Managing Risk in the Supply Chain

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Managing Risk in the Supply Chain

Executive Summary

Technological change has resulted in treasurers being able to perform their traditional roles much more efficiently. Globalization has allowed treasury to be managed from a single location across even the most complex multinational corporations. Tasks which used to take days can now be performed within minutes or a few hours. This means treasurers have more time to contribute to their organizations beyond their primary areas of responsibility. "All eyes in corporate treasury are on maximizing liquidity and mitigating risk, with prudent treasury departments advancing their strategic mandate by looking deeper into the dynamics of their global supply chain," says Jason Torgler, Vice President at Reval. Risk management skills are of particular value, with treasurers being asked to use their traditional risk modeling and management skills to support strategic decision-making.

In this guide, we explore some of the ways treasurers can use their skills and insights to support strategic management of risk in the supply chain. It is unlikely that most treasurers will have the responsibility for implementing supply chain risk management policies outside finance. However, the treasurer can help to identify, evaluate and suggest mitigation techniques across the whole organization. "By taking a closer look at the forces behind the supply chain, treasury is able to optimize its supply chain relationships and assess and mitigate potential supply chain risks," Torgler says. This guide looks at the distinct stages in managing supply chain risk, and identifies ways in which the treasurer can add value to the organization as a whole.

Understanding the Treasurer's Traditional Role in the Supply Chain

Historically, the corporate treasurer played only a limited role in the supply chain. The treasurer's responsibilities concerned solely the management of cash and associated risks in the final cash collection and disbursement phase. Accounts payable and accounts receivable were typically outside the remit of the corporate treasurer, with those functions separately accountable to the CFO. The corporate treasurer then had to react to data provided from the accounts receivable and accounts payable. There was limited cash position forecasting, and corporate treasurers had little opportunity to manage activities proactively.

Most treasury activity was concentrated in group operating companies, many of which managed their own cash and liquidity independently of the main group. There was some group activity, although the group corporate treasury typically would have had only an advisory role to support cash managers in group operating companies. The treasurer may have been responsible for managing foreign exchange risk, too.

There have been two significant developments which have changed the scope for treasurers to act generally: globalization, and advances in treasury technology capability.

Globalization has affected multinational corporations in a number of ways. First, it has made it much easier to do business internationally. The emergence of regional trading blocs, especially the European Union, has resulted in a more standardized approach to trade, with tariff and non-tariff barriers to trade being reduced or, in some cases, abolished. Fewer exchange controls mean cash can be moved across borders more easily, so it is easier to adopt group funding strategies and implement group-wide liquidity management structures. Although there are still countries for which complete integration is difficult or not worthwhile, it is now realistic to manage treasury on a regional or global basis.

There has also been a globalization of regulation. The impact of Sarbanes-Oxley regulation, for example, has placed a responsibility on CEOs and CFOs to know exactly what is going on in group entities around the world. By extension, treasurers cannot afford to leave smaller operations within the business to manage their own activities. Regulatory pressure requires management to focus on all entities equally. In the most complex operations, this is only possible if a common set of policies and procedures is implemented across the organization. Many multinationals have responded by centralizing core services, including the treasury function.

At the same time, treasury technology functionality has improved significantly over recent years. Twenty years ago, many corporate treasury departments would have used spreadsheets to collate and analyze data from accounting programs and, possibly, an ERP system. Today, treasury and risk management systems are able to collate data from a variety of different sources: banks, asset managers, group operating companies, suppliers, and customers. This data processing capacity significantly reduces the time taken to perform traditional treasury tasks such as calculating cash positions and investing surplus cash. This means real-time cash positions are available via automated feeds from, or online connections to, banks. Banks in major financial centers publish account information on an intraday, often real-time, basis, allowing treasurers to manage cash positions on an intra-day basis, too. From a cash management perspective, treasurers are increasingly looking to improve the quality of their cash position forecasts so they can proactively manage cash and reduce speculative borrowing. They are also able to get improved visibility of cash throughout their global operations, depending on the capabilities of their banks, especially in emerging markets.

The impact of globalization and technology change have both required and allowed treasurers to play a more proactive part in managing activities within their organizations. At the very least, this has been to demonstrate central treasury control and visibility over the detail of global operations in multinational corporations. Even if this is at the level of adopting a group-wide treasury policy and allowing group entities to implement it, treasurers need to be able to demonstrate the ability to track performance, so that any breaches are identified and dealt with. This is both an investor expectation and a regulatory requirement.

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