The Defining Attributes of a Successful CFO: Treasury

In our third installment of Defining a Successful CFO we are covering the "Show Me the Money!" attribute, Treasury. This key pillar of the CFO function provides the fuel and discipline to manage and grow a company's capital base.

If you missed Attribute #1 Accounting: the acts of Recording, Reporting and Governance or Attribute #2 Finance: the acts of Planning, Forecasting and Investment Analysis. We received wonderful feedback and had some great learning moments from your responses to our previous articles. Thank you for staying engaged in this discussion.

Treasury encompasses three critical aspects for long term business success; cash management, capital raising and risk management. A successful CFO has the capabilities to effectively lead each one.

1. Cash Management: The lifeblood of any company is cash. Without cash or the belief that cash is quickly available, the stakeholders of a business will flee toward the exits. Cash management is the discipline designed to provide comfort to the stakeholders that cash is available to operate the business normally. It includes daily activities such as balancing the checkbook, processing credit card transactions, and reconciling cash accounts. Unreconciled bank accounts are a red flag that a business is not operating effectively.

Know your ground zero. Ensuring cash is available to cover payments is a top Treasury responsibility. Ground zero for any company is the minimum short term cash needs. For this exercise let's define short term as 3 months. Do you know your company's ground zero? A frequent tool used in the turnaround industry (and as part of bankruptcy proceedings) is the 13 Week Projected Cash Flow Report. If you don't have one, we strongly urge you to take the time to build one. Even if you don't believe you "need" it at this time, the learning that will take place in terms of process, capabilities and systems will be well worth the resources you invest in it. If you have a finance team maintaining plans and forecasts they will be a great resource and interested party in developing a 13 Week Projected Cash Flow Report.

2. Capital raising (funding): Know your options. Funding can come in many different forms; operating cash flows, terms with suppliers or customers, loans or lines of credit, and raising equity. Each form has different costs and risks but the objective is the same – provide the company with enough liquidity to execute your plan with some cushion for variability. Having cash, either on hand or available, will not only help to avoid bankruptcy, but also position your business with adequate resources to capitalize on growth opportunities as they come about.

The funding aspect of Treasury starts with a capital plan. The following is a list of items to include in a capital plan.

Current financial position:

- Capital structure

- Cost of capital
- Leverage and
- Liquidity

Prospective items:

- Liquidity policy (13 Week Cash Flow Report and minimum cash requirements)
- Dividend policy
- Potential New Funding options
  - Debt funding sources and pricing (may require asset appraisals)
  - Equity raise sources and pricing (company valuation required)
  - Alternative sources of capital
- Requirements for the maintenance of a Financial Forecasting model (See Attribute 2: Finance)

3. Risk Management: The importance of capital and readily available cash drives companies to implement risk mitigation measures to protect their capital base. This is why the risk management function is a natural fit for the Treasury attribute. Many internal controls are designed to protect against cash shortfalls. These controls include; preventing cash from being misappropriated, monitoring bank covenant compliance to preserve liquidity and executing an effective capital policy to maintain a reasonable cost of capital. The demands and rigor associated with effective cash management are a natural extension to solid risk management practices.

Risk management also includes insurable risks, for example; property and casualty, business interruption, employee benefits, labor strife, cyber-attacks and fiduciary risk. In addition, there are uninsurable risks, risks that can't be underwritten by a normal insurance company.

Examples of uninsurable risks include:

- Raw material pricing in a commodity driven business
- Logistical costs incurred due to weather or other circumstances
- Planning errors made by the company

Identifying these risks and assessing the resources required to manage them comes at the intersection of the Accounting attribute, Governance (defining corporate rules and establishing audit procedures), and the Treasury attribute, Risk Management (identifying and managing insurable and non-insurable risks). Much like the baton exchange described in article 2 between Accounting and Finance, Governance and Risk Management are deeply connected with the actions of one having an impact on the other.

I have received some very insightful feedback and have had some great learning moments from your responses to our previous articles. Thank you for staying engaged in this discussion.

Catch up on the other 3 articles in the series - The Defining Attributes of a Successful CFO:

If you missed Attribute #1: Accounting? Catch up here.

If you missed Attribute #2: Finance? Catch up here.

If you missed Attribute #4: Leadership? Catch up here.

Steve Rosvold **runs KRM Business Solutions.** KRM **delivers interim and part time CFO services to growing businesses in the Pacific Northwest; business education and financial intelligence to the global business community. Steve spent 22 years in finance and strategic planning at Cargill Inc. and ConAgra Foods. He lives in Vancouver, Washington.**

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