Sustainable Treasury Thanks to kpis

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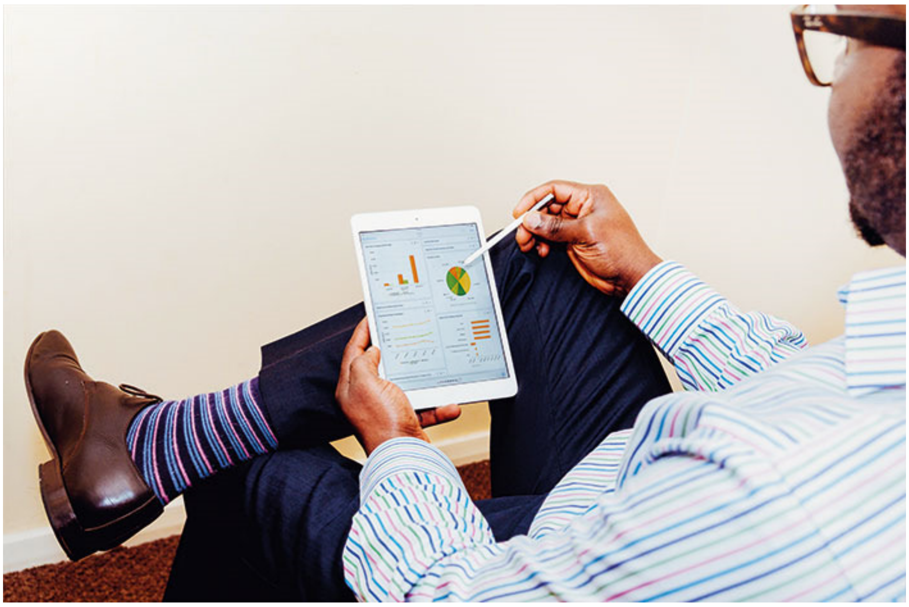

Treasury management system implementations introduce efficiencies to your organisation's treasury operations and encourage your team to think proactively about future improvements that can be made. At the moment, you may be at the beginning, in the middle, or already at the end of your treasury system implementation. Whatever stage you are at, the implementation can re-shape your treasury department moving forward. Apart from the obvious operational changes that a treasury system brings, participating in a treasury system implementation should be an empowering experience for your treasury team.

After all, moving from a manual Excel-based workflow to a treasury management system that centralises data, Load Balances work and introduces automation, is an impressive achievement. Importantly, the benefits gained from implementing a treasury system do not need to end after the implementation is completed. Rather, significant insights from the treasury system only become available after the implementation is complete. Formalised workflows performed in the treasury management system increase transparency on treasury's responsibilities. Transparent treasury operations coupled with the information collected within the treasury management system, allow the tracking of Key Performance Indicators (KPIs), which provide direct feedback on treasury's performance. Results from KPI analysis then drive key strategic decisions that further improve treasury's performance.

Post treasury system implementation, your treasury team can advance their practices by adopting KPI tracking. Increasingly, the trend is that management, board of directors, investors, and analysts are looking at treasury's performance as a key input to understanding future company value. Tracking KPIs helps to satisfy this interest, by offering objective measures of treasury performance. More often than not, before a treasury management system is in place many treasury teams do not have the time to consider KPIs. These treasury teams usually have not given much thought to defining the most appropriate KPIs for their needs. When adopting KPI reporting, it is important to recognise that differences in industry, organisation, financial situation, business cycle, and treasury structure affect which types of KPIs are interesting to look at.

There is no one-size-fits-all solution. KPIs should be customised by your treasury team, based on the nature of the organisation, as well as treasury's role within it. How should you begin to define which KPIs are relevant? As a first step, the treasury system implementation can help your team understand which KPIs are important by bringing transparency to your treasury structure, workflows, and financial situation. Once this is understood, the second crucial step is to understand what objectives are relevant for your organisation's treasury. For example, if your treasury structure is geographically dispersed and your objective is to gain visibility into all regions within your cash position, an important KPI for your team may be to track the number of account balances that are reported in the treasury system. Alternatively, if your treasury team is relatively small, and your objective is to efficiently run operations, a KPI for the speed of the cash positioning workflow should be tracked against a target speed benchmark. Aside from operational KPIs, it is normally even more interesting to identify and track value-oriented KPIs.

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A good starting point for identifying relevant value-oriented KPIs for your organisation is to evaluate your financial situation, your objectives for managing the costs of funding, and your objectives for investment outcomes. For example, if your organisation is cash poor, or choosing to operate in a low cash reserve situation, a KPI could be set to track borrowing costs against a target cost benchmark, and borrowings against set counterparty limits. Alternatively, if your organisation is cash rich, a relevant KPI could be to set an investment target percentage and track the percentage of unused funds invested, and their returns. The examples mentioned here are only a few ideas of KPIs that may be valuable to your treasury team. Whatever KPI you choose to monitor, you should be mindful that the KPI is measurable and meaningful to evaluate against your targets.

While KPIs provide immediately useful information to stakeholders who are interested in monitoring treasury performance, simply reporting KPIs is only half the story. To stop at this step would be to forgo the true added benefit of implementing KPIs – using them as a catalyst for change. Once KPIs have been tracked over time, the information gathered should be analysed to further understand treasury's strengths and weaknesses. Emphasis should be focused on the latter point – treasury's weaknesses, as this is where constructive revisions to treasury policies and objectives are derived from. When making changes to improve treasury's operations, your team must understand the reason for the change. Even more, in order for a treasury team to adopt new methods of working, they need to be convinced that the change is necessary.

The quantitative and qualitative results from KPI analysis provide the "evidence" required to obtain the buy-in from your team members and upper management. Building off of the operational KPI examples mentioned above, if cash visibility is proven weak over time, and this is due to difficulty establishing communication with banks, perhaps an amendment to treasury operations is to consider obtaining SWIFT reporting functionality. In terms of value-oriented KPIs, if metrics show that external funding is called on frequently and costs of funding are too high, this may spark interest in exploring alternative methods of managing liquidity. The set-up of an in-house bank for example, may enable efficient use of pockets of cash surplus across the organisation to fund cash needs. The life cycle of KPIs is another interesting point that should be considered.

The initial set of KPIs that your team selects reflect the original policies and objectives of your organisation's treasury function. These objectives motivate the treasury processes that were implemented. When changes are introduced to treasury policies, objectives, and the corresponding processes, your team should be cognisant that previously relevant KPIs may no longer be applicable. The onus is on the treasury team to review the impact of any new changes and adjust or introduce new KPI measurements to continue to track treasury performance. Clearly, the selection of KPIs for any treasury reflects their current and future performance aspirations. The choice of KPIs and types of measures of KPIs really influence the areas where treasury will aim to succeed. At a higher overarching level, it may be helpful to discuss with management which key areas in treasury the organisation is interested in improving. The results of this conversation can help your team determine which tranche of KPIs (Cash Visibility, Forecasting, Funding, Financial Risk Management) to consider when determining the most relevant KPIs for current and future goals.

The treasury management system implementation experience, if managed properly, can act as a lightning rod that inspires continual change within the treasury department. Following the momentum of the implementation, your treasury team can benefit directly from tracking KPIs that provide feedback on their performance. Only after measuring actual performance against the original treasury objectives can treasury make informed strategic decisions on how to improve the status quo. All this illustrates that sufficient time and thought should be taken to define the relevant KPIs that monitor your treasury policies and objectives.

When tracked over time, KPI trends can serve as evidence to support and shape strategic decisions that drive improvements in treasury. Finally, when changes are made, it is important to review and update KPIs to ensure measures accurately track and provide feedback for the updated objectives. Thus far, we have tried to convince you that KPI tracking can help improve long-term treasury performance, without mention of the technological functionalities required. Of course, this is a significant element that cannot be ignored. The fact is, robust and meaningful KPI tracking depends on technological support to collect data and generate timely and accurate reporting. This type of technological support can be costly when implemented separately, reducing the benefits from KPI reporting.

Recognising that robust data collection and reporting are already an innate feature of the treasury management system, BELLIN has been actively working on a new service called BELLIN Vantage. Focusing on a unique mix of consulting infused with software, BELLIN Vantage aims to bring data visualisation and analysis easily to your treasury operations. Starting first with our easy-to-use dashboard, we expect BELLIN Vantage to grow into a full suite of data visualisation, KPI monitoring, and analysis tools that help treasuries unlock and understand their business specific insights.

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