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TREASURY MANAGEMENT: HEAD OR TAIL?

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ABSTRACT

Treasury management is the creation and governance of policies and procedures that ensure the company manages financial risk successfully. Treasury management is aimed to achieve ultimate goal of an organization- maximum profit with growth. This depends on essentials i.e. Availability of funds in Right Quantity, Availability of funds at Right Time, Deployment of Funds in Right Quantity ,Deployment of funds at Right Time, Profiting from Availability and Deployment. Along with financial and other availabilities success depends on strategic blue print developed by financial experts or managers who keep their eyes on interests of their organization as well as stakeholders. In present globalized business scenario, this strategic management is equally valued with financial management. The current paper has tried to explore the principals, necessary to obtain the ultimate goal of an organization through strategic treasury operations.

KEYWORDS: *Treasury Management, Financial Risk, Globalized Business Scenario, Treasury Operations.*

Introduction

Head or Tail means this side or that side / this thing or that thing. While throwing a Coin one has to decide a Choice i.e., Head being the one side of the Coin bearing principal figure and tail the other side. 'Treasury Operations of Business Organizations' both Head and Tail of Money Management is Win-Win Situation i.e., Invest surplus funds with High Yield and Borrow funds with Low Cost. How?

Every Business Organization's Goal is "***Profit with Growth***". To achieve this object, organization should monitor the following TWO areas:

- **Primary**: Efficiency in Core Operations of the Business.
- **Secondary**: Efficiency in Management of Funds (Surplus or Borrowings).

Either of the above is very important to achieve Bottom Line (Profit) of the Organisation. Ideal Ratio of Time and Efforts to be spent by Organisation to both activities is 70:30. As Core Activity is a Primary concern of the Organisation it requires more time and energy i.e., at least 70%. This Percentage is more or less common in Manufacturing or Service or Trading Organizations. Balance 30% Time and Efforts should be spent on "Funds Management" of the Organisation by Treasury Department. Even though Organizations spend 30% of Time and Efforts on Treasury Operations, benefits derived through Treasury Operations is almost equal to Core Activity. Some Organizations always focusing on Core Activity and neglected Treasury Activity, thereby they deprive the benefits of Treasury Operations. So Management of Funds through Treasury Operations is equally important as Core Activity of the Organisation.

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Five Broad Principles of "Treasury Management" of Business Organisation are:

- Availability of funds in Right Quantity
- Availability of funds at Right Time
- Deployment of Funds in Right Quantity
- Deployment of funds at Right Time
- Profiting from Availability and Deployment

Availability of Funds in Right Quantity

Whenever organization requires funds for business operations, they should assess exact requirements i.e., neither short nor excess. If assessment is wrong, then it leads to increase in Cost Borrowings thereby bottom line will be affected. Various tools available for proper assessment of Right Quantity funds are:

- Study Price Movements of 'Factors of Production / Services'.
- 'Inflation Trend' in the Economy.
- 'Cost of Production / Services' of the Organization.
- Study the 'Funds Flow Statement' pattern of earlier Years.
- Projected 'Monthly Cash Budget'.
- Finally, Apply 'Sensitivity Analysis'.

Either Idle or Shortage of Funds leads adverse impact on Profitability of the Organisation. Due to availability of Technology, accessing Money Markets, Funding through Banks and Financial Institutes, getting Right Quantity of Funds is not a Big Challenge to the Organizations through full-fledged Treasury Operations.

Availability of Funds at Right Time

Funds should be made available to the Organization at Right Time. Otherwise purpose of funds requirement will be defeated. Early mobilization of funds carries carrying cost due to non-utilization of funds. In the similar way, delay in mobilization of funds leads stoppage of flow of Production activity or Services. Availability of Funds in Time accrues more benefits to the Organisation. Strategies to arrange funds at right Time are:

- List of Alternative Sources of Finance.
- Maintenance of Good Relationship with Suppliers of Money.
- Improve the Credit Rating of the Organization.
- Repayment History of Earlier Loans.
- Future Growth and Prospectus of Organization.
- Financial Health Position.
- Forecasting Methods.

By following the above strategies, Organizations can arrange required funds in Time. There by it not only an advantageous position to the Organization but also beneficial to all Stakeholders of the Organization. Study various Financial Products that are available in Financial Markets including from Financial Institutions and gestation period to obtain these products. As every organization is on having online real-time financial management systems and it is very easy for them to monitor the funds requirements on hourly basis instead of monthly or quarterly basis. Accordingly, the organizations should forecast their funds requirement well in time and mobilize them on dot time.

Deployment of Funds in Right Quantity

Business levels are not constant throughout the Financial Years. Peak season and Slack season exists in all most all business organizations. In slack season, usage of available funds requirement will not arise. These are to be properly deployed in temporary investments to avoid the opportunity cost to the organization. Slack season in business is a regular phenomenon during Financial Year, it is not one time incident. Fund flows are to be properly regulated or deployed to get optimum benefit to the Organization. Funds should not be kept idle. Right Quantity of funds are to be deployed i.e., it should be neither excess nor short deployment. Excess investments leads funds crunch and shortage of funds increases idle funds with 'opportunity cost' to the organization. How much funds are to be deployed and how much funds are to be kept to meet the current requirements are to be assessed properly. If proper assessment is not done and more funds are deployed or invested than required level, then funds shortage will arise to the organization and again the organization should borrow funds from the market with higher rate of interest than the investment rate, which drain out the Profits of the Organisation. Strategies to arrive Right Quantity of deployment of funds are:

- Investment opportunities in the market.
- Period, rate of interest and Credit Rating of proposed investment.
- Market information about proposed investment.
- Comparison of Borrowing Cost with Yield Rate on Investment.
- Availability of Surplus Funds for investment purpose and period.
- Assessment of Surplus Fund for Investments during slack season.

Best tool to arrive right quantity of funds to be deployed is based on the 'Cash Flow Statement and Cash Budget of the Organisation.' Identification of exact amount of surplus funds and period is important task to Treasury Managers. If proper assessment is not done Asset Liabilities mismatch will happen and Liquidity problem will arise. Sometimes due to lack of right quantity of deployment it is bottleneck to Production Process and Profit of the Organisation.

Deployment of Funds at Right Time

Keep surplus Cash in safe and Bank Current Account is not a beneficial to the Company as the Yield Rates are ZERO and it is an opportunity loss to the Organisation. We can minimize the Opportunity Loss by deployment of funds at Right in various investment Opportunities available in financial markets. This is a continuous process, Monitoring Liquidity position in the Organisation and Timely Recovery of Trade Credits is also very important in Liquidity Management. Excess Liquidity and Quick Recovery of Trade Credits are to be properly deployed at Right Time in suitable investments. So that the organization should get Interest and timely availability of funds as and when they required. Thereby Organisation will get income on the surplus funds. Strategies in this regard are:

- Proper assessment of Liquidity position and Liquidity Management.
- Preparation of Cash Budgets for Season and Un-season separately.
- Quick Recovery of Trade Credits to avoid funds blockage and opportunity loss.
- Use of Technology support systems like Tools available in Financial Markets like Cash Management Product (CMP) of Banks, RTGS, NEFT, Multi-City Cheque, Standing Instructions etc.
- Study the Money Market Instruments for Timely deployment of funds.

Profiting from Availability and Deployment

Low cost of Borrowings and High Yield on Investments is the mantra to earn Profits. Treasurer plays role to balance these two important aspects in borrowing and investment of funds of the organization. To achieve the objectives the treasury has to monitor or control the following activities on regular basis:

- Study the Financial Markets.
- Availability of funds from domestic and international financial markets.
- Cost of funds and its periodicity.
- Forecasting Tools like Cash Budget, Cash Flow and Funds Flow Statements.
- Usage of Technology in Treasury Operations.
- Coordination of different sections of Treasury Department.
- Regulatory Guidelines on various Financial Instruments.
- Tax Benefits on Financial Instruments.
- Use of Risk Mitigation products like Derivatives etc.

Conclusion

Business Organization's Profit is the function of "Core Activity and Treasury Activities". Some Business Organizations are giving more focus on Core Activities than Treasury Operations thereby bottom-line is being affected. Main objective of the Treasury Operations is Low borrowing Cost and earn on High Yield on investments of surplus funds. As financial markets are widening day-by-day and lot of investment opportunities available, borrowing with low cost and invest in High Yield Investments is not a problem to the Treasurer with the help of Technology Tools. Hence, Treasurer has to utilize these opportunities to earn more profits to the Organisation. To conclude, Head (High Yield on Investments) and Tail (Low Cost on Borrowings) both are equally important in Treasury Operations to increase Profits of the Organisation.

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