Intro: Welcome to the Strategic Treasurer Podcast, your source for interesting treasury news in your car, at the gym or wherever you decide to tune in.

M. Zonsius: You can only keep your eyes on so many things. For optimal vision, we need depth perception. And for depth perception to be acute, we need measurements. On this episode of Becoming A Treasurer, we look at the process of comparing and measuring while starting to explore the practice of setting of goals and challenging your team. Listen in on the discussion on treasury measurement.

 Welcome to the Treasury Update Podcast. I'm Meredith Zonsius, the Communications Manager at Strategic Treasurer, and I'm sitting here with Craig Jeffery, our managing partner and founder. Today we're excited to continue our series of episodes on becoming a treasurer with part three, What Do I Measure? For those who are just tuning in, this series explores questions around becoming a treasurer, including how to prepare, what needs to be measured, how to communicate effectively, how to develop a team and how to get the resources you need. Welcome Craig.

Craig Jeffery: Thanks Meredith. It's good to be here again.

M. Zonsius: So how would you recap episode two as we go into this series?

Craig Jeffery: As we look at what do I measure ... Well I'll go back to episode one real briefly. Episode one was on how to prepare to become a treasurer. And so some of that session was focused on the mindset. And then the other part was on skills, experiences and the breadth of the background there. Episode two was what do I now that I become a treasurer? And we focused on a couple elements. We focused on priorities of what you need to do, understanding the expectations and timing, all the way down to what does it mean to own cash for the organization? Some of the key elements that you need to do in the first period of time, the honeymoon period of time. So there's a look at what do I measure. This is a key part about what is the feedback loop for the treasurer.

M. Zonsius: Can you explain the break? Was that for the podcast length or a logical break?

Craig Jeffery: So why we broke up measurement from what do I do, because measurement is certainly something you do, the break was a couple reasons. One is, podcast is the long form, but it can't be extensively long. People need a certain period of time to listen. The other aspect is that we definitely need a lot more time on measurement. This is very important. And as a feedback loop, it is something you do but it's something you do that cycles back on the measurement aspect. So it needed it's own section for both reasons.

M. Zonsius: So we all understand the general concept of what gets measures, gets improved or maintained, can you provide definitions of some terms and explain how a treasurer should think about measurement?

Craig Jeffery: Absolutely. I'll get to the concept of terms secondly, but first how a treasurer should think about measurement. One aspect is, you have limited time to do measurement, limited resources. And given that, we have to focus on the key activities or areas that are essential rather than spending all our time measuring. You don't have staff. You can't get a couple extra staff members just to do measurement. You want to measure as part of the course of doing business and not make it something separate.

 We'll get into that with a little more detail later on, but when we think about the areas and key activities that we need to focus on, we have to think about operational activities as one area. This could be number of wire transfers or payment volume. It could be the speed or efficiency at which you secure or procure services, cost that you pay. There's a number of things on the operational side that lend themselves well to measurement. There's other groups of things to think about such as liquidity. This could be access to liquidity, diversification of your sources. It can even relate to forecasting, accuracy, variance analysis, whether it's on balances or the actual flow of funds.

 We also need to think third areas in terms of risk, usually financial risk. But it could also be insurance related risk. How do we measure that and what standards do we use for that? Security if often time not looked at and it should be looked at when we think about measurement. What are you doing to stay current, to stay ahead of the criminals and stay ahead of peers? This is an area that most treasury groups are not where they need to be.

 And then another area of measurement really needs to sit on top of projects, how you manage projects. The big activities that keep the organization moving forward. It could be related to supporting an organizational objective. It could be putting in a bunch of tech that may be more oriented just to treasury, but making sure you're moving the needle over time with the different groups. Thos are some of the key areas in terms of how we think about measurement and what are the areas that are included.

M. Zonsius: Can you talk a little bit about the terms?

Craig Jeffery: A couple items. One, the conceptual or positional target with the measurement. These are some terms that we use. They're not all adopted by the industry, so for those that are listening, hopefully you'll adopt these. And if you don't, that's okay too. But I think you'll understand the concept. So you may use other terms for them.

 One is world class. World class is the highest standard that someone would use, the best method of performing payments, the most efficient way of securing debt. Whatever the standard is, it would be considered the pinnacle across industries, particularly for an industry that may be focused on a particular area. So if an organization's focused on payments, a payment intensive organization would be the best way that they do it. And you could think about different industries and areas. This would be the top standard.

 Leading practice would be something that would be very worth of emulating, probably worth the cost in most organizations, if you're shooting for leading practice. This would be a standard that would be excellent. It may not be world class. I mean, it might be the top 50 companies or 40, but it would be something that would be a very, very good standard. Very efficient, well controlled, able to scale. There would be some different definitions around that that would be considered world class, well above the minimum standard, and would be applicable to a particular type of industry or an area of intense treasury activity in the area that we're considering.

 And then the third term or the positional target would be the standard of good corporate conduct. This would be the minimum standard. It would fully meet the minimum standard that an organization had to do. It wouldn't fall below, but it would fully meet what the expectation is. And sometimes the standards change. Usually the standards change. If you're looking at security, they have to increase to combat fraud. If you're looking at efficiency as you layer in new technology and elements there, your efficiency levels should go up because you're employing better technology, making better use of it. You're eliminating hand offs. You're eliminating errors and defects and therefore getting a better standard.

 So those are some of the conceptual or positional targets, those three areas. World class, leading practice or standards of good conduct. The other terms, a couple of other terms we'll use is benchmarking. Benchmarking is thrown out. Benchmarking and metrics are terms that people use quite a bit. Benchmarking is simply the comparison against an industry standard or metric. This works pretty well for some things like investments. It works well for certain things like transactional activity where you can see how much time or how much money it costs to do a particular transaction. And these do vary over time.

 So if we take cost or security for example, you might look at bank fees for electronic payments. These trend down over time because commuting costs decrease and even though security measures are put in place, volumes increase, cost decrease. So over time, bank feed for electronic payments would trend down. Paper, manual processes tend to trend up because there's such a human element to it. There's a huge cost to that.

 The other is security. Security standards keep increasing in thoroughness and in cost. We'll give a training example. Many organizations didn't do any training for security, particularly non bank entities like corporations. Making sure that you train and test is something that is, the standard is changing. So most banks train their employees related to payments and security and they test them. Almost all of them, well over 90 percent train and test their employees. When you get to the corporate environment, the non bank environment, when you start to say who trains and who tests, that's about a quarter. So it's close to 40 percent train but somewhere around a quarter actually test their people on it.

 So that's one measure. The other is cost to credit could be another example and I won't get into that too much. But this can be impacted by the overall supply and demand of cash, the buying power versus the offering power. That shifts over time based upon macro economic trends and cycles. So we still need to discuss the frequency of measurement and types of measurements and standards.

M. Zonsius: Can you explain what you mean by types of measurements and standards?

Craig Jeffery: Yeah. Standards, I think the first thing about standards we need to decide what the source is and how we look at it. Some standards might be internally generated. You compare yourself to yourself. The personal record type issue. You're comparing what your efficiency against your internal data, because no company is as close to yours as your company. And so you can certainly gain some type of depth perception by comparing yourself to your prior periods and see how that's improved in terms of reducing defects. Cost, efficiency, level of liquidity.

 So when we think about using internal sources, this tends to be for unique activities or a unique situation. It's almost always good to compare yourself with yourself, to some extent. Other elements, when we start to look outward, would be common operational functions. Time to process a wire in a controlled manner might be an example. And you use internal reasons as well. When there's no external comparison that is relevant, your industry is unique, very unique, or your company does things differently. And we see problems when people do comparisons against some working capital metrics and it's a rough pulling together of information from financial statements. You're not removing maybe card data for running those calculations. So making sure that those comparisons are right may require you to have data that doesn't really exist through financial statements of other organizations or may not be available from a benchmarking perspective.

 Yet another element here when we think about the standard is, what do we do when there's massive changes happening in the marketplace that we don't see? They're happening very quickly, so most organizations are behind. It's one thing to say "Hey, we're in the top 60 percent or we're in with the pack" and people are slow to change. And we think about changes that have come on with regard to risk or when there was insurance coverage, unlimited coverage for deposits at banks. And then when that fell off, it took multiple years for organizations to provide adequate coverage for the balances that they were maintaining to make those changes.

 So when we see things changing rapidly, a drop in the regulation, a great shift like with efficiency or new services, faster payments, or we see changes in the area of security, those things happen so quickly, it takes multiple years for that to work it's way through the industry. We need to make sure we're looking at that thoughtfully and staying in the middle of a pack is not effective, especially when you think about something like security or not staying current.

 So when you look at what standards do we use and we say we want to either be world class, use a leading practice or standard of good corporate conduct, some of those standards change rapidly and what your peers may be doing may be way behind. That's hard to say and to say it bluntly, but a lot of people lag significantly. They wait.

 Your other question had to do with measurements. We had promised to talk a little bit about measurements. So a couple of areas. I'm going to talk about four really briefly, just in terms of how we think about those things. First is projects, and I spoke about that at the end of the first section when we talked about limited time and how we do that. But projects are very important. Treasury is always involved in changes in an organization. You're opening a new line of business, you're working somewhere else. There's services that need to be acquired, elements that need to be added or changed, staying in front of them. When we think about projects, whether it's for treasury alone or for the organization in total, we need to make sure we're not only meeting our targets, the dates, time and budget, but that that's being communicated effectively. Even more so if it's outside the particular area.

 Second, I'll talk about management oriented measurements. Part of treasury success, and we spoke about this in the first session more so than the last session, is making sure that the organization understands what treasury does, what they're doing, what the value is of risk management for one example. So helping them understand treasury is vital. And so measurements that will get reported to them have to make sense to them and reinforce it on a continual basis that the communication there is a ongoing process, not a single event, not a single report. I mentioned purpose of risk management, practice of risk management, the idea of hey, we lost money on your hedges. Is that really bad? Or is that really fine because we reduced our exposure, we only hedged part of our potential exposure, therefore we are ahead of the game and we're positioned properly for what we wanted to achieve vis a vis the market or vis a vis our competitors.

 Other measurements in operations helps us in the ongoing process of being efficient, continuing to yank out exceptions, move more to straight through processing, reduce cost, achieve a measure of being able to scale the organization without just continuing to throw people at it. So it's more flexibility.

 and then financial elements too, in terms of measurements. If we go to the fourth one here ... And there's certainly more ... Over time, the longitudinal view of how we're performing financially, what's going on with the credit markets, what's a perspective that we need to do to help the organization hit their financial goals in a way that's unique to how treasury does it. You can help different operational areas, but you're also working with the overall market, paying attention to that activity. For a long answer to your short question about measurements.

M. Zonsius: Let's talk a little bit more about frequency of measurement. Can you provide more color on this?

Craig Jeffery: Yeah. And maybe it's a short conversation, maybe it's a little bit longer. I could say, you have to think about what you're measuring and what the right frequency is. Let me go a little bit deeper than that because let's think about it. Some measurements lend themselves to annual, some quarterly, monthly, weekly, et cetera. Benchmarking. Let's think about benchmarking for a second. If you're benchmarking to external sources of information, you're not usually doing that very frequently. You might do it monthly or quarterly for investments because the data might be available. But if you're sourcing data from a third part for what are we doing security wise or how much does it cost us to run a wire transfer or to set a forecast or how much time are we allocating to that, that's going to be an annual measurement. And it should be done. Other activities like our operations, we won't be doing a benchmarking but we'll be doing a comparison to our own data on a month by month basis. And that will flow naturally from the way we track and report things.

 Projects can be tracked weekly, monthly or quarterly, but your organizational mindset will help to determine the cadence. For some, a 90 day management view seems to be the right way to put heat on people to get things done. You have a sprint or whatever the term is for a 60 day or a 90 day period. A lot of organizations find projects are assigned, targets are set within a three month period and over those 13 weeks, they push to get things done. And so there's four periods in a year.

 But whatever the cadence is of the organization as a whole, that might be a great one to follow for things like projects. Whatever the area is, whether it's benchmarking, tracking projects or operational, figure out the frequency that's right and proper and be formal about it. Whether it's in a monthly management report, a quarterly treasury report, how that's captured and used is very important. If it's just captures and put in a book and nobody looks at it follows up, it won't matter. And if it's ignored, it will deteriorate no matter what the measurement is, because there's only so many things people can focus on. So make sure it's the right things at the right level.

 And I know we'll get into that in a little more detail because you can measure 50 detailed items, but it might be more important to measure the entire process.

M. Zonsius: We've talked about measurement before and I know you have some points you bring up from time to time. Can you explain some of them?

Craig Jeffery: I can and maybe we should've started with this because I think people will find this more interesting. Maybe they have stopped listening when we talked about some of those other ones. One area that's really important is killing off competing KPI's. Key performance indicators are great. Everyone uses that term or most people use that term. What will show you success or what are you shooting for in a particular area? But that concept of, if you optimize part of the process, you sub optimize the whole, is very true.

 And so when you think about different measurements, and I'll give one quick example. If you have one group pushing in one direction and one in another, it seems like they're aligned but they're not. They can be different. Sales can say "We want to get the lowest price." So then they focus at the lowest price to the exclusion of what you might be trying to do from a working capital perspective. So they buy a massive amount of inventory, getting a better price, and treasury's like "Wait. We're trying to reduce working capital in those areas." So it's very easy to set up competing KPI's because everyone focuses on one section of the process. But if you're looking to optimize the entire process, you have to kill off those competing KPI's and get people to look up.

 Second is, unsubstantiated comparisons waste time. Companies and organizations are different. And sometimes they're the same, but since they're different, you really have to be careful with benchmarks and comparisons. Are you comparing a similar size organization? A level of complexity? That complexity can be volume of activity, can be number of countries you're operating, it could be related to payments, the level of risk exposure you have, the type of customers. There are a number of different measurements and those have to be factored in so your comparison externally is reasonable. And unsubstantiated comparisons waste time. And we see this over and over again, people making comparisons that they shouldn't make, that either make them look good or they look bad and it's a very different situation. So the comparison is not good.

 Third is ease of data capture. This is really important in terms of thinking about how do you effectively measure things? Because you're not going to have an army of people running around measuring things and tracking them and putting them in database across the board. Mostly, you want to capture, for example operational activities, operational activities should be captured in the ordinary course of business. Captured and maintained over time. Not lost when a person leaves. It should be systematized, tracked, part of a monthly or quarterly reporting cycle. Any manual reporting has to be exceedingly rare and has to be very important to get that data.

 That brings us to the fourth area. It has to do with financial reporting, because some of the measurements and some of the tracking the treasury needs to do will be captured through the financial reports of the organization, the balance sheet, the income statements, statement of cash flow. These are naturally kept over time and they're available for a long period of time. It's easy to pull this data. Organizations make sure they maintain it over time as people move in and out.

 But we have to understand some of their limitations. Liquidity issues, treasury cash versus gap cash are different concepts and aren't inherently tracked in those records as you look over time, and yet they can be pretty important to some of the initiatives the treasury have. So think about that in terms of when you're coming up with your set of measurements, what you're going to measure, where you're going to get that source and how can you do that over time, not just over a quarter or a year.

 The fifth area is statistical significance for external data. When you're looking to do benchmarks or industry metrics or data like that, there's too many examples of someone talked with two other treasurers or treasury groups and therefore they think they have a great grasp on what the industry standard is. That's an extremely small pool. We know from statistics that's not significant. And if it confirms your bias, that's wonderful and great but it doesn't necessarily mean you're shooting high enough, you're shooting at the right target or making changes.

 We also see it when people pull data from surveys. You see people saying we have a survey where the end, the number of people who took the survey or answer that question was 20 and it's just not statistically significant. How are you going to make a decision based upon that? It's way too small a sample size.

 We also see it, sometimes people say "We have 100 companies' bank analysis statements and we're going to do price comparison, breaking out by volumes." Well when you start making the cuts and comparisons, it's not statistically significant. And we want to make sure that the comparisons are reasonable and appropriate. So how do you know and how will you defend this position that you've taken that we're shooting for this price, we're targeting this level of efficiency, we're reducing risk at this level or our cost of activity falls here.

 The easiest comparison is against yourself. It's the easiest to capture the data. It's the easiest to monitor and to make improvements and it's more likely to be similar than other organizations.

 Now finally, if you're still with me Meredith, I'll get to the last one. It's select a set of annual benchmarks. Many people don't do this. They talk about metrics. They talk about benchmarks, but they don't go out and get the right set of data. They'll either look too broadly and say "I need to measure 1,000 things" or they won't measure anything. Or they might only measure their investment performance because that's easy to do or it's easier to do. But I would say that you need to make sure you're tracking your progress on an annual basis with some different benchmarks. So it might be used to prove a point. It might be used to continue to challenge your group. It might be used to secure funding against competing resources that the organization is trying to parse out. So this could be on payment security.

 This area is a massive issue. The security of payments throughout the organization is falling significantly behind what standard it needs to achieve in today's environment of cyber fraud, crime and the effort that criminals put together. So payment security would be one area to certainly consider. Selecting transactional activity to measure in different areas. What's our error rate? What's our cost for doing it? And that directly relates to transactional cost.

 Another area is liquidity management. How diversified are we with our debt, our investments? What's our diversification level? How are we protecting that? What's our risk, reward activities there? And then I'll just mention one other, and there's certainly more than just relationship management at the end. But when we think about relationship management, how are we spreading out our wallet, the shared wallet? Are we making sure we're staying important to the financial institutions that are important to us? Do we use a balance score card to make sure there's the right feedback to the bank? Do we have a formal bank relationship policy? Any of these things, you can benchmark general activities against the industry. How many organizations have a balance score card? Have a formal policy? Are you running these activities to make sure you're managing relationship properly? Setting up your transactional costs appropriately?

M. Zonsius: All this information on what do I measure is very informative. As we wrap up this episode, what can we expect in the next in the series?

Craig Jeffery: A couple of future topics we'll be looking at in the Becoming A Treasurer series is one, what do I need to know and two, how do I challenge my staff? For what do I need to know, we're going to expand from the preparation to become a treasurer and the discussion about the mindset of the treasurer. We're going to move and pursue the concept of knowledge, wisdom and decision making and make application in a few new directions. And we'll just take it further than we did before. In terms of challenging our staff, challenging my staff, we'll look at the concept of setting aggressive targets that are realistic and that's certainly part of it. But we'll explore how the best treasurers get their team to take additional ownership and challenge themselves and to hold each other accountable as part of the culture, not just a top down driven approach.

M. Zonsius: Sounds good. I'm looking forward to it. To our listeners, if you have any suggestions for future episodes in this series or for other Treasury Update Podcast, please send them to podcasttopics@strategictreasurer.com. Finally, thank you for listening.

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