CFO DIVE

Bankers' Main CFO Gripe: Lack of Transparency

CFOs and their treasurers can get more from their banking relationships if they treat them more as partnerships than customer-seller transactions, banking specialists say.

By Ted Knutson

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A CFO that was trying to time the market before executing an interest rate swap waited too long and ended up costing the company a significant amount of money, a mistake that could have been avoided by using a tool the company's banking partner had available. But the CFO never took advantage of it.

"Unfortunately, in this particular case, the market shifted materially," said Bita Ardalan, managing director and head of commercial banking at Union Bank, whose company, Ardalan said, had tools the CFO could have used to create interest rate certainty. "It ended up costing the company hundreds of thousands of dollars in higher interest expense over the life of a particular loan."

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Ardalan chalks the mistake up to the CFO and the organization's treasury staff not having a good handle on what the bank had to offer.

"Taking the time to holistically review all the financial services they have access to as a company and sharing a candid business assessment can reduce risk," she said.

Competitive relationship

The lack of familiarity by CFOs and their treasury staff of what's available from their banking partners is a common problem, say bankers and banking consultants.

Too often, company finance executives approach their banking relationships with a competitive mindset, reluctant to divulge too much about their operations and eager to avoid what they perceive as a sales job for services they don't need.

But bankers say CFOs lose out on opportunities to get tools that can help them take better strategic control of their money.

"The best bankers are focused on the opportunities to impress with solutions that make the finance team more efficient and aren't pushing specific products," said Jordan Sternlieb, director of financial services for West Monroe Partners, a banking consulting firm. "It helps if bankers can avoid the 'guessing game' and hear straight from the client."

"Transparency in communication builds trust, in addition to providing your bank with the opportunity to offer relevant guidance or introduce you to new products and solutions," said Scott Harrington, CFO of Trovata, a banking platform technology company.

CFOs and treasurers can serve their companies better by being proactive and initiating regular relationship reviews with their bank contacts, said Harrington.

"Set these times up with your relationship team and create a scorecard," he said.
Ardalan, of Union Bank, said CFOs and treasurers err when they don't invite more than just their bank's relationship manager to their meetings.

Additional bank specialists should be there because they tend to have deeper information on interest rate hedging, foreign exchange, fraud, payments and receivables, and other specialized areas, Ardalan said.

Early intervention

Expanded relationships are even more vital when it comes to non-treasury functions like capital raising. Ardalan recommended CFOs meet with their bank's investment banking team long before they need any money.

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"These discussions are not just a prelude to a sale; they often help identify material opportunities to grow a business more profitably and result in significant value creation," she said.

If their companies are facing a cash crunch or other problems, Ardalan said, CFOs and treasurers should tell their bankers early on.

"Whenever possible, avoid surprising your banker," she said. "A delay in sharing bad news might lead the bank to think the CFO or treasurer doesn't have their arms around the business."

Performance scorecards

Hamza Benamar, CFO for Kyriba, a treasury management software company, recommended CFOs be involved in understanding the health of the banking relationship, or at least receive updates on banking scorecards and other metrics to ensure the bank relationship is being leveraged to its full potential.

"More than ever, banks often provide or are partners in enabling supply chain financing or discounting scenarios to help both sides of the financial supply chain achieve their objectives," he said.

CFOs in many cases can partner with banks to develop a mutually beneficial relationship in liquidity planning.

"At the end of the day, treasurers provide the CFO with the assurance that assets are safeguarded, and the organization has the liquidity required to meet obligations and fund strategic decisions," Benamar said. "This is only possible if they too have immediate visibility into their positions."

The No. 1 avoidable mistake CFOs and treasurers make with their banks is forgetting that banks do better when they help their company do better, said Frank Williamson, founder of **Oaklyn Consulting** and a former $40 billion investment portfolio manager for the insurer Unum.

"How many CFOs or treasurers do you hear ask bankers proactively, 'What kind of assets do you need to obtain (tenor, rate, risk)?'" he said. "'How does your organization make decisions? What is needed in the credit committee memo? What are the threshold terms that you need to achieve?'"

He claimed too many CFOs and treasurers make the mistake of thinking of themselves as a purchaser trying to drive a hard bargain and not taking the time to understand the banking side of the relationship.
One of the things that made his financings at Unum work, said Williamson, was that the senior management team was full of people who had been bankers themselves.

"We inherently got that the bankers across the table from us have needs, required decision-processes, etc.," he said. "We respected their roles and that they are people, too."