

making your system simpler and eliminating time-consuming tasks.

Dangers of Too Little and Too Much Cash

It may be appealing to keep cash levels at bare minimums, especially if your company is a heavy short-term borrower. However, if you keep cash levels too trim, you may run up against limited liquidity periods. Typically, it is the treasury manager's job to stay attuned to the market to see if liquidity sources are drying up and to take steps to store liquidity if necessary, before and after credit constraints occur.

If you are faced with too little cash, you usually have some type of short-term borrowing facility available or a short-term investment portfolio. However, if you also have an inefficient cash flow management system, you may have enough cash in the organization's pipeline that would eliminate the need to borrow the full amount of the cash imbalance. Pipeline cash may not cover all your short-term needs, but every unit of currency you save reduces the organization's interest expense and helps prevent illiquidity.

You might think too much cash cannot be bad. However, too much cash tends to encourage indifference among financial executives and can de-emphasize attention on the cash management activities. It can also create excess balances in bank accounts that are not given much importance by the company's financial managers.

Cash congestion

Large amounts of excess cash can create cash "congestion." Cash congestion occurs when there is far too much cash to be managed effectively. Some industries face this problem continually. For instance, the real estate-housing industry typically has multitudes of accounts because each property or group of properties has its own bank accounts to handle receipts, disbursements, and, often, investments. This can translate into dozens or even hundreds of bank accounts, which create this congestion because essentially the cash position for each property or group of properties must be managed separately. The more cash congestion there is in your system, the greater your potential loss.