

We Thought You'd Like to Know

Vol. VI, No. 1

January-February 1999



Gene Siciliano, CMC

We Thought You'd Like to Know

©1998 Western Management Associates

SUBSCRIPTIONS—\$48/YR.

8351 Vicksburg Ave.
Los Angeles, CA 90045-3924
310-645-1091
fax 310-645-1092
E-Mail
CFOForRent@aol.com

Web Sites:

www.expert-market.com/cfoforrent
www.speaking.com/cfoforrent.html

We are committed to helping business owners and corporate managers achieve for their companies greater financial success in an ever-changing economy.

Part-time Financial Management • Executive Coaching • Management Seminars and Educational Products.

Your CFO For Rent®

Highlights from this Issue

1998 in retrospect 1
Investment ideas for the millenium. 3

A New Year's Message

May you live in interesting times—
an ancient Chinese 'blessing'

As we reflect on the year 1998, we'd have to say it was an "interesting" year, in the best sense of the old incantation.

The financial markets gave us still another strong year, a bear market scare, a lightning-fast recovery, and a clear reminder that it won't go straight up forever—all in 12 months.

Politics and some of our leading politicians demonstrated their inherent weaknesses in ways that show us once again that the best system of government on earth is still far from perfect.

I am pleased to report our firm had its best year ever, for which we are deeply thankful to our clients, our associates, and our many friends and colleagues.

At the same time our services mix underwent a significant shift in emphasis. We saw a big increase in our financial department

effectiveness audits ("Assessments") as CEOs try to improve or redirect the supporting role played by their finance and accounting departments.

The most satisfying part of our year occurred in our professional speaking and seminar business. During the fourth quarter our speaking engagements were for the first time our largest source of gross billings. Our firm's long-range plan shows our consulting and speaking ultimately contributing equally to annual revenues, and 1998 moved that ahead wonderfully.

Still, part-time financial management and coaching of CEOs and controllers continues to be the foundation of our consulting practice, and we intend to build that business further in 1999 with your help.

As you look at your own results for last year, Please see **NEW YEAR**, p. 2

The Speaking Circuit

Recent Engagements:

Gene spoke to the national dealer network of Pace American Corp. in November as part of their "Pace University" program to upgrade dealer management skills. The topic was "Dreams to Dollars—Business Planning for Building Successful Dealerships."

Also in November he spoke to a CEO group sponsored by Tokai Bank. His topic was: "Using Financial Statements to Manage Performance."

In December Gene spoke to the Strategic Planning Conference of the California Manufacturing Technology Center. His topic: "The Art of Management Focus."

Upcoming Engagements:

March 14 - Gene will be in Chicago to address the annual meeting of the Building Service Contractors Association. His topic will be "Dreams to Dollars—Strategic Market Planning."

April 27 - Gene will present a seminar program in Las Vegas to the National Employee Service & Recreation Association. The theme will be business planning as a profit building tool.★

Managing People

Pay for performance

When it comes to hot new management tools, Pay-for-Performance isn't doing so hot. Less than 1 in 4 companies who have tried it called themselves "extremely satisfied" with the results, according to a recently completed annual survey of such attitudes by national consulting firm Bain & Company.

Yet everyone with an opinion (and that's just about everyone) seems to agree that salary alone is nearly useless in motivating superior performance or job loyalty. So why does this seem like an unending horror film?

The challenge has always been to relate pay to performance. Everyone agrees that is a sound objective to escaping the dilemma of employees considering their pay as an entitlement rather than a reward for doing good work. What CEOs seem to get stuck on is the design and implementation.

Bonus programs that work don't work without effort. Profit-sharing and similar pay plans don't require much work and usually don't work.

We'll wait while you read that again.

So, if the value to the company of having a working pay-for-performance program is not high enough, forget about it. Pay your sales force commissions to sell your products and pocket the rest. But if you believe you can increase your success by a motivated, loyal and happy workforce, then it requires some effort on your part to put a well-designed program into place and then maintain it just like you maintain an expensive machine in the factory.

What does it take for a bonus program to really deliver on its promises? Here's a list I believe works:

1. Goals that clearly relate employees' specific efforts to the success of the enterprise (*which profit does not*). Define for each person the elements of their performance that will most contribute to your company meeting its most important objectives

Please see **REWARDS** page 4



Management Development

Financial Officer Training

"At most companies the CEO is driving the car and the CFO is in the backseat, commenting on what they've just passed. We want to put the CFO in the front passenger seat, telling the CEO to look out for bumps in the road ahead." So said the CFO of Sara Lee in announcing a program to train their division Controller/CFOs to become better balanced contributors to the strategic direction of the company

(*CFO Magazine, October 1998*).

Sara Lee's problem is shared by many companies whose controller/CFOs have been promoted from lower positions without necessarily possessing the added management or strategic skills needed to fill the expanded roles expected of them. Busy CEOs don't have the time, or usually the expertise, to assess the need and prescribe a training program. So the old cycle repeats: the CFO tries to learn on the job while short-term performance takes a back seat. If it doesn't work out, both CEO and CFO have to start over, usually after a painful, stressful parting of the ways.

In today's tight labor market, that's a very costly solution when compared to the alternative: assessing needs and implementing a well-thought out program of training or coaching to fill the gaps. The only problem for most middle market and smaller companies is finding a source for those services.

Enter **Your CFO For Rent**.

The firm specializes in assessing finance departments—personnel, systems & procedures, communication, and their effectiveness in meeting management needs—and recommending programs of corrective action. We also provide coaching services in financial and strategic management for controllers and CEOs.

You don't have to be Sara Lee to be able to build a better financial department. You simply have to pick up the phone and call 310-645-1091. ★

NEW YEAR, continued from page 1

and review your plans for the new year, ask yourself these questions:

- ▲ Is your vision still on target?
- ▲ Are your goals still in concert with that vision?
- ▲ Are you doing all you can to achieve your goals and realize your vision?

Remember, achieving long-term goals is impossible unless you are taking clearly focussed, targeted action today. Now is the time to redirect your efforts and resources to get back on track. Now is the time to re-dedicate your company to its real purpose. Now is the time to begin anew.

We wish you all a happy and very prosperous new year. ★

Cost Control Concepts

"Most corrupt countries" in the world

If you do business internationally, or plan to, this should interest you. A Berlin-based organization that calls itself Transparency International (don't ask us why) has dedicated itself to publicizing and curbing corruption throughout the world. As part of their crusade, they have conducted a survey of business people to identify those countries *perceived* as having the most serious corruption problems within the government.

The results may or may not surprise you, but they should be in your mind as you pursue business outside the comfort of the US. We emphasize that TI notes their findings are based on the perception of corruption, not necessarily the reality, which is not easy to measure. But even the reputation can stifle investment and commerce and make doing business there more risky.

Here are their top 10 leaders, good and bad:



MOST CORRUPT

Cameroon
Paraguay
Honduras
Tanzania
Nigeria
Indonesia
Columbia
Venezuela
Ecuador
Russia

LEAST CORRUPT

Denmark
Finland
Sweden
New Zealand
Iceland
Canada
Singapore
Netherlands
Norway
Switzerland

Want to learn more? Go to <http://www.transparency.de>. In the meantime, be watchful, keep your credit department informed and alert, and good hunting.

Source: Credit Today, PO Box 660, Burtonville, MD 20866 ★

Investment Ideas for the Millennium

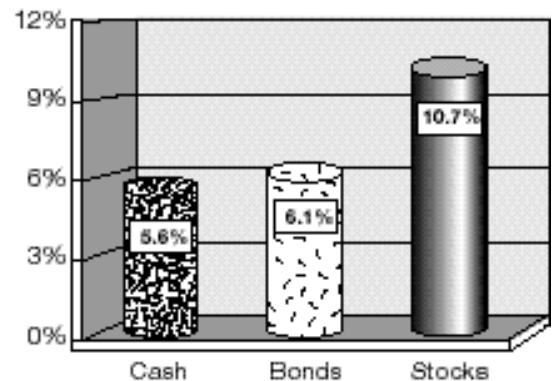
How to earn the best return on your money



Peter Lynch, the investment guru who built Fidelity's Magellan Fund into the most successful mutual fund ever, often talks about investment alternatives for maximum return. He states in no uncertain terms that equities—individual stocks and mutual funds that invest in them—are the most effective way to maximize your long-term returns, period. He quotes statistics that demonstrate clearly that you would do much better in stocks, even if you rode out all the bumps and grinds of bear markets, than in any other form of investment, including real estate.

Supporting that conclusion, a study from Merrill Lynch shows that equities over a 40 year period from 1955 to 1994 (before the raging bull market of the last few years) returned substantially more than any other non-real estate investment, including good times and bad. Their numbers looked like the chart on the right.

The message we get from all of this is clear: If you want to earn as much as possible on your invested capital, equities should be at or near 100% of your portfolio of investments (aside from cash for contingencies, your business and your home). This assumes you have the risk tolerance and the time before you need the money, e.g. retirement, to allow the ups and downs to even out. Market timing probably should not be used to try to hit highs and lows, simply because statistically it doesn't work for most of us. We end up missing the best opportunities created by America's resilient economy.



Something to consider in your millennium planning. Since we don't give investment advice, of course, you should consult your tax and investment advisors before taking any specific action. *So, what are you waiting for? Call your advisor today.*

Ed. Note: Your investment advisor is not the same as your tax advisor. Don't call your CPA for such matters unless they are firmly in the business of providing investment counsel. If you don't have one, we'll be happy to refer you to one we trust. Just call us at 310-645-1091.

Higher investment yields are still available

Some of us remember earning 10-11% on our non-stock investments, but it seems like a long time ago. Actually, for many folks it's still happening, because they invest in trust deeds on real estate. These little known investments can give individuals returns similar to those that many mortgage lenders enjoy, often with smaller investment minimums than you would imagine. With the proper underwriting on mostly commercial real estate, these investments can provide above average safety with excellent returns.

A 30-year-old Southern California company and All Cities Resource Group member, **Fidelity Home Loan**, puts such deals together routinely. They report less than 1/2 percent foreclosures since 1971. You can get more information by calling Chuck Hershson at (800) 752-9533.

INVEST, continued from page 3

Medical Savings Accounts ("MSAs"): **Great** idea for the healthy professional family

MSAs can *significantly* supplement your retirement plans, while helping to shelter you from major medical losses. Depending on how young and healthy you and your family are, you could end up with a \$500,000 or more nest-egg at age 65 instead of just your cancelled checks for a lifetime of medical insurance premiums.

So, what is an MSA and how does it work? It is a retirement savings device that gives you a tax deduction for carrying major medical insurance, and enables you to invest tax-deferred money into an investment account, just like an IRA. All you need is a qualifying major medical policy (\$4K to \$5K deductible, 100% covered thereafter) and the cash to put aside for the deductible if you need it. Then you open an MSA, invest up to \$3,375 of the deductible in any IRA-type investment, and stay healthy. Your money



stays in the account, growing and compounding until retirement age, when it can be withdrawn just as if it were another IRA.

KEY: You can do this *every* year, as long as you don't need to make a claim against the policy, i.e., you and family don't have health problems that require using the deductible. This is NOT a "use

it or lose it" plan, it's a "don't use it and accumulate it" plan, where you can win big-IF you're healthy!

Downside? This won't make sense for everyone. It seems intended to benefit the middle income self-employed or small business owner who is raising a basically healthy family and must carry insurance for emergencies. There are other qualifiers too detailed to outline here, but if it fits, it's a great way to get the government to further subsidize your retirement.

To find out more, as we did, call your financial planner or Dan Silverman, **Family & Business Insurance Planners**, at (213) 852-8001. As you know, we are not personal investment advisors, but we firmly believe that everyone should take advantage of programs that permit tax deductions for retirement funding: Keoghs, IRAs, Roth IRAs, and now MSAs. Call now. ★

REWARDS, continued from page 2

- (which are spelled out in your business plan, right?).
2. Clear goals that they understand and accept because they've had a voice in setting them. Relate their bonus directly to their degree of success in improving that element, and get agreement that they have control of that success. No more than 3 per employee, 1 is better.
 3. Targets that truly require effort to accomplish, yet are perceived as being within reach. They have to perform well to get there, so they don't see it as just another entitlement. But don't get greedy here, and shoot for the moon, lest your plan be seen as a sham to induce greater effort without paying for it.
 4. Frequent feedback from you to them on how well they're doing, in varied and visible ways. Tell them when they're doing well, in fact tell everyone. Publicize the program in places your employees see, like the lunchroom, the newsletter, etc. The psychic rewards that you get here are difficult to measure but priceless in importance.
 5. Rewards that are connected directly to the performance improvement. Pay your people bonuses that clearly say great performance earns a great bonus, while mediocre success even from favored or talented employees earns only modest rewards (or none, if you're on an aggressive growth curve.

At the risk of wearing out the message, the key here is *simplicity*. We often get stuck when we try to make our goals less tangible, e.g. improved customer satisfaction, or more global, e.g. greater company profits, or more refined, e.g. more new account business that buys our newest line with at least half their increased purchase dollars, etc.

Such refinements may



seem to make sense on the surface, but they fail in one or more of the 5 factors above. Either they are not owned by the performers (dictated by the folks upstairs), or they don't clearly see their role in success (overall profit targets fail here), or you don't tell them how they're doing, maybe because you haven't figured out how to measure their contribution, etc. etc.

We certainly don't have all the answers, and no answer works for everyone. But you need answers that work for *your company*, and we can help you get them. ★