

The Real World of
finance

**12 Lessons for the
21st Century**

JAMES SAGNER



John Wiley & Sons

contents

Acknowledgments	ix
Introduction	1
PART 1	
Managing Financial Activities	15
Lesson 1 Profitability	17
Lesson 2 Working Capital	33
Lesson 3 Financial Responsibilities Outside of Finance	47
Lesson 4 Outsourcing	63
PART 2	
Financing the Corporation	79
Lesson 5 Access to Credit	81
Lesson 6 Noncredit Banking Services	99
Lesson 7 Strategic Planning and Capital Budgeting	114
Lesson 8 Rating Agencies	127
Lesson 9 Investment Banking	141
PART 3	
Facing Twenty-first Century Challenges	157
Lesson 10 Audit and Control	159
Lesson 11 Risk Management	176
Appendix 11A Guide to the Preparation of Policies and Procedures	187
Lesson 12 The Chief Financial Officer's Focus	192
Afterword	206
Index	209

acknowledgments

This book developed from my teaching and consulting experiences going back three decades. Working with Fortune 500 clients, I have been constantly amazed that finance is almost an afterthought in the everyday world of business—except, of course, for such financial services companies as banks and securities firms.

Business today focuses on three priorities:

- Sell product.
- Install and maintain information systems to tell management where it is and where it may be going.
- Make profits.

Finance is expected to provide permanent capital for investments and to manage working capital to meet ongoing requirements. But it is not supposed to get involved in the management of the business. If you don't believe this, visit the financial function of a company and ask if any senior manager has ever gone on a sales call, toured the manufacturing floor, or talked to an unhappy customer.

When I teach finance courses, I often explain that although the book says “X,” the real world operates in a “Y” mode. Students without significant work experience don't understand this. Those who are in corporate positions, usually part-time MBA students, immediately agree. And the question always is: Why doesn't someone write a book based on reality?

My gratitude goes to all of the students and managers I have encountered over the years. They have educated me to a far greater extent than I have ever taught or advised them. I specifically acknowledge the following:

- My first finance course at Washington & Lee University, taught by Professor Leland McCloud, using the text *The Financial Policy of Corporations*, 5th ed., by Arthur S. Dewing (New York: Ronald Press Co., 1953).
- Rosemary Loffredo, assistant treasurer of International Paper, who was my copresenter of an early version of this topic at the annual Association of Financial Professionals in Chicago on October 15, 2001.
- Timothy Burgard, my Wiley editor, who shepherded this book through to publication.

Grateful acknowledgment is extended for the permission granted by the following publications for the use of lesson 12 material that originally appeared in somewhat different formats.

- To the Association of Financial Professionals for “Roles of the CFO in the 21st Century,” *AFP Exchange*, September/October 2001, Volume 21, Number 5. ©2001, pages 70–78; all rights reserved.
- To Financial Executives International for “Today’s Treasury Function,” *Financial Executive*, January/February 2002, Volume 18, Number 1. ©2002, pages 55–56; all rights reserved.

For any and all errors, I am entirely responsible.