



## ***Commentaries and Insights from Allawos & Company***

*July 3, 2013*

### ***Penny Wise and Pound Foolish***

***Larry Vertal, Senior Consultant***

The institutionalization in companies large and small of bare minimum expenditures, sub-optimal staffing, slowed accounts payables, reductions in CAPEX and R&D may be understandable given the continued economic uncertainty.

However the knee-jerk “across the board” directives that one sees in organizations today are often a sign of failed management and company stewardship. Across the board, often percentage-based, belt tightening across all aspects of a company is one of the surest indicators of C-level management loss of control or utter laziness and the need for new management.

How to approach, evaluate and ultimately decide where to tighten the screws and where to actually invest even in downturns is not easy and more often than not requires outside advisory. Even the best senior management can find it hard to step back and get a clear view because they are in the midst of the daily operational issues. And

this is especially the case during times of the slowing of a company's growth be it from competition, product or services problems or external economic factors such as a stagnant or unpredictable economic environment.

The irony in this is that while determining where to cut and where to invest are some of the most important decisions, often bet the company decisions, top management can make, what is often seen at the moment is this is exactly where management goes penny wise and pound foolish in attempting to get advice and guidance.

There are a number of common scenarios seen today which in some circumstances may make sense but on the whole are follies. All can be classified as getting help on the cheap or for free.

One of the most common is the success-based compensation pure-play. In this approach, management offers the advisor compensation only based on the results of the services achieving pre-defined metrics or goals. When realistically defined, this can work but often the results are out of the control of the advisor and dependent on the execution by management and company.

The lack of any other compensation to the advisor can make the engagement unsatisfactory for the company in a number of ways not the least of which is that the advisor is incented to think narrowly and short term in order be rewarded for his or her services. Bluntly, it is difficult to find a consultant that can provide real value that is willing to accept such a pure-play relationship.

Another approach that senior management often thinks is clever in trying to get something for nothing is the unpaid Advisory Board. The approach here is to try and get a knowledgeable group of outsiders to provide guidance to management.

More often than not this is a complete waste of time as there is little common interest on either side. On one side management wants free advice from people who have the free time to pontificate without having any risk or skin in the game.

On the other side there are many different motivations seen in the

members of such advisory boards that don't necessarily match management's desire to get uncolored advice. These motivations include such things as the desire to leverage the relationship into employment, use it as a stepping stone to the board of directors with compensation of some type, use it in the belief that it helps their personal branding or networking and at the extreme use the position to gain inside information.

In any case such motivations do not map well to management's desire to get free and untainted advice. Some advisory boards can work but most are self-delusional exercises at best.

Even in the best cases advisory boards to a large extent are just another version of a consultant doing pro-bono work in the anticipation that the relationship will evolve into a compensation-based one.

In any regard, most efforts by companies to get advice that is truly of value for free or on the cheap is penny wise and pound-foolish.

Experienced advisors of value are few and far between and might invest forward by giving you a short burst of time but will quickly disengage permanently once it becomes apparent the relationship is disingenuous and one sided.

## **About Allawos and Company, LLC**

Allawos & Company is a comprehensive global business-consulting firm tuned to enable organizations identify and exploit opportunities through creative engagement built on a foundation of decades of senior management experience.

Whether in corporate development, strategic planning, alliances, market development, diplomatic engagement or manufacturing optimization, our team is focused on client-specific value creation.

*Michael Allawos  
President & CEO  
Principal Consultant*

*Larry Vertal  
Senior Consultant  
Corporate Development*

*Ambassador Werner  
Brandstetter  
International Strategist*

*California, USA*

*Albert van Rensberg  
Senior Consultant  
International Bus. Dev  
Guateng, South Africa*

*Stephanie Jones  
Senior Specialist  
Employee Relations  
California, USA*

*California, USA*

*James Kohlhaas  
Senior Consultant  
Systems Integration  
Washington DC, USA*

*Jim Shivers  
Senior Specialist  
Water Treatment  
California, USA*

*Vienna, Austria*

*Dennis Alferio  
Senior Consultant  
Real Estate/Gov. Affairs  
California, USA*

More information is available at  
<http://www.allawosandcompany.com/home.html>  
or by calling (626) 824-4546.