# raising

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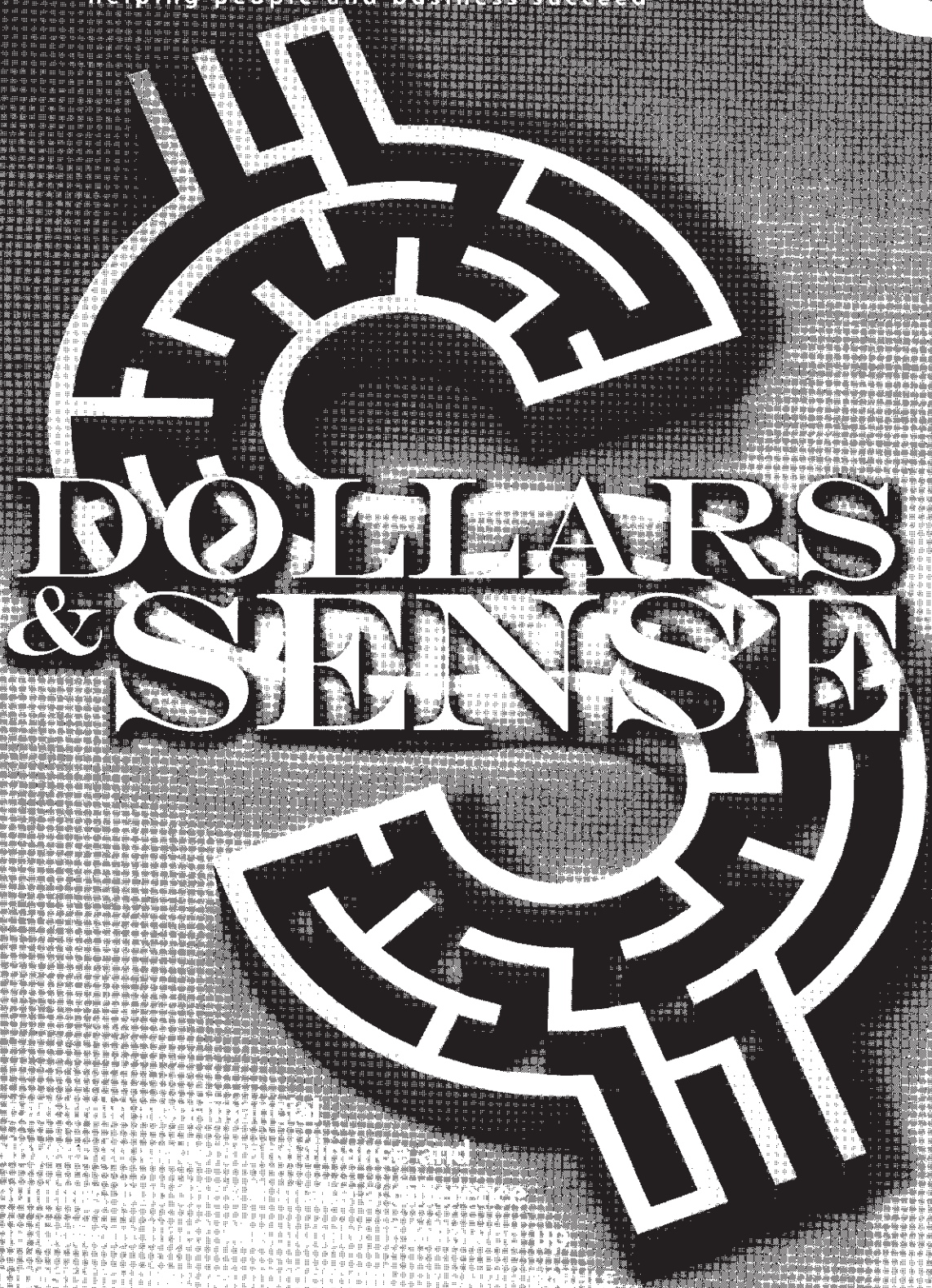


# DOLLARS SENSE

It's that time of year again. Your divisional VP gathers top managers in a conference room to review the annual budget. Terms such as "gross margin" and "turnover factor/amount" are thrown around. You nod knowingly—despite the fact you don't have the slightest clue what anyone is talking about. Or perhaps the president's annual memo hits your desk. No bonus or profit sharing this year, the memo says, because your company failed to meet its EBITDA goals. Yet even though your livelihood is tied to this simple acronym, you don't have the foggiest notion what EBITDA (a.k.a., earnings before interest, taxes, depreciation, and amortization) stands for or how the work you do each day impacts it.

You're not alone. A financial literacy survey conducted by the National Foundation for Credit Counseling (NFCC) in April 2007 reveals that a large number of American consumers do not follow the most basic financial-management best practices in their own lives. Only 39 percent track expenses; less than half have ordered their credit report; and one-third do not know where to go for financial advice. Given that millions of Americans barely know how to manage their own money, it's no wonder so many workers have an even harder time understanding the financial jargon sprinkled throughout the income statements, P&Ls (profit and loss statements), and budgets that are the language of the corporate world.

Unfortunately, most workers who fall into this category suffer in silence. They feign understanding out of fear that admitting what they don't know will make them look stupid in the eyes of their colleagues—or worse, hurt their careers.

## Addressing the Gap

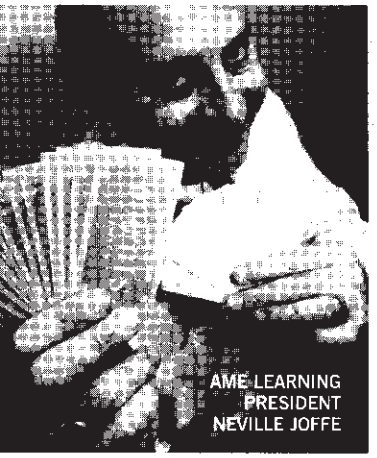
What are companies doing to address the issue? Some fail to

## Quick Tips

**DON'T GET BOGGED DOWN IN THE DETAILS.** The surest recipe for striking fear in those unfamiliar with financial terminology is to overwhelm them with too much information. To that end, avoid sharing details that only a bona fide accountant needs to know when communicating your numbers to non-financial personnel, advises AME Learning President Neville Joffe. Instead, identify one or more key metrics that workers actually have the capacity to control. Then, craft your training and reinforcement strategy around those metrics.

**OPEN YOUR BOOKS—ALL OR IN PART.** There's no point in telling workers you want them to improve gross margin if you aren't willing to expose the numbers behind such metrics, says Joffe. Nevertheless, he says, many companies are reluctant to share information out of fear of revealing too much. His advice? You don't need to show people all of the numbers; you just need to show them the ones they can impact.

**COMMUNICATE REGULARLY—AND IN AS MANY WAYS AS POSSIBLE.** For example, establish a plan for debriefing employees regarding the company's financial performance on a weekly, monthly, or quarterly basis. Hold department meetings during which team members discuss and chart their progress in comparison to established goals. Post visuals around the office that depict the company's key metrics, goals, and performance. Write success stories featuring those doing their part to influence the company's metrics and include them in the company newsletter or on the corporate intranet.



AME LEARNING PRESIDENT NEVILLE JOFFE

**SWEAT THE SMALL STUFF.** "People think tiny improvements or waste have an insignificant impact on operating results," says Joffe. "However, all small amounts accumulatively make a huge difference relative to the small amount left on the bottom."

**OUTSOURCE ON-THE-JOB TRAINING TO YOUR TRAINEES.** Before leaders at Southwest Airlines conduct a "Reel Deal" program for their reports, for example, they first complete an intensive "Teach-the-Teacher" workshop designed to ensure they know the content inside and out and are prepared to present it to others and facilitate constructive conversations. Post-training, these leaders also are encouraged to always be prepared to tell a one-minute story about the trends behind each of the company's four financial metrics, in order to bring them alive to their reports. Another option? Follow the advice of Lawrence MacGregor Serven, author of "Beyond Office Politics as Usual" (AMACOM, 2002). He recommends having non-financial employees present the monthly performance results to the organization. "Not only will the presenters gain an appreciation for what happened during the period of review, but they'll gain valuable knowledge about how the company works, especially beyond their own area, and how it measures its performance. In other words, they'll build their business literacy."

**DEPLOY THE RIGHT TOOLS.** In some instances, deployment of the right tools can even take the place of training. In 2005, for example, EMCOR Group Inc., a Fortune 500 construction company headquartered in Norwalk, CT, deployed XLerant's BudgetPak software to department heads throughout the organization. The user-friendly, TurboTax-like software, says EMCOR Group VP and Controller William Feher, essentially has "democratized" budgeting throughout the company because it uses plain English to help non-financial workers develop, track, and maintain budgets without the use of a single spreadsheet. And thanks to functionality built into the software that allows workers to see moment-to-moment actual-vs.-projected budget figures, department heads now are doing a much better job of creating accurate budgets and keeping costs down, says Feher.

acknowledge a problem exists, but others attempt to remedy the problem through training—an approach that has value, according to experts in the business acumen field. "Training can make the difference between employees sitting in a meeting and having no clue what the CEO and CFO are saying when they are talking about EBITDA and free cash flow, and workers actually understanding the financials and key metrics before them, so an intelligent conversation can take place," says Karen Berman, co-owner and co-founder of the Business Literacy Institute in Calabasas, CA, a company that specializes in business literacy training, strategy, and reinforcement.

If you want financial-related learning to stick and your learners to apply it on the job, however, Berman and other experts advise, don't make the all-too-common mistake of offering training—and stopping there. "You need to integrate training into the organization's culture and all of its processes—not unlike TQM (total quality management)," says Ted Prince, CEO and founder of The Perth Leadership Institute, a business acumen assessment and training firm in Gainesville, FL. "Don't simply show people how to read a balance sheet; show them how their intrinsic behavior impacts the organization's financial outcomes."

Then? Reinforce the learning and sustain the momentum by putting a long-term application and communication strategy in place.

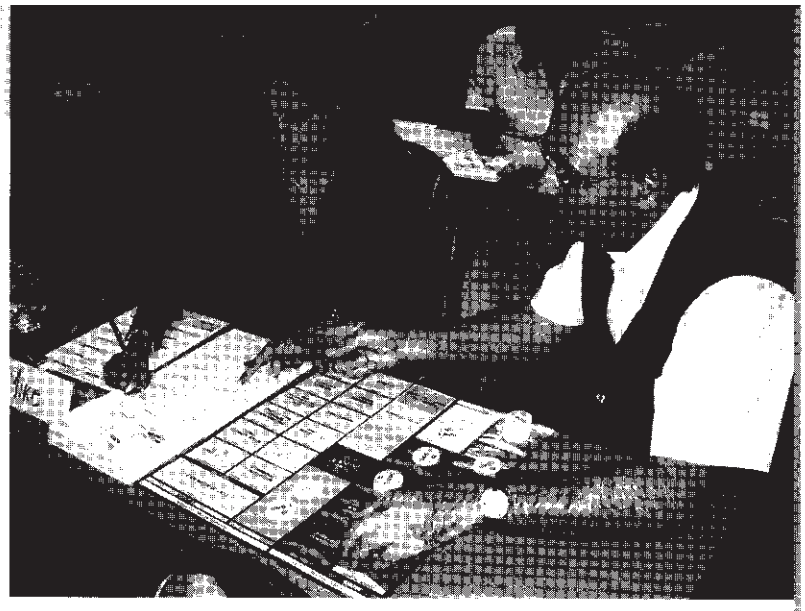
## Making Money Matter

Those companies that have achieved success in doing just that typically devise a three-prong plan. They hold workers accountable for using what was learned. They develop a common, easy-to-understand language surrounding the company's financial metrics. And they regularly communicate the numbers to employees—allowing them to see how their actions are impacting the company's financial well-being.

Accountability for the numbers is priority No. 1 at Mac's Convenience Stores in Toronto, Ontario, Canada. In 2004, the company embarked on a mission to redefine the job requirements of 80-plus market managers throughout the province. "Before, when market managers visited stores in their area, they were making sure the stores looked good, our programs were executed, people were wearing clean uniforms, good customer service was being provided, and health and safety information was appropriately posted," says Paul Dolby, the company's director of HR. "You'd think they'd be focused on sales every day but they weren't. In fact, the last thing they'd ask about, if they talked about it at all, was the numbers."

To ensure market managers began to act more like business consultants to the stores they serve, the first thing Mac's did was establish financial acumen as a key competency associated with the position. Then, Dolby and his team made working with store operators to build sales a key requirement—to which both performance evaluation and compensation are, in part, tied—of market managers' jobs.

To help them live up to these expectations, Dolby and his team engaged AME Learning Inc., a financial training firm in Richmond Hill, Ontario, Canada, to develop customized financial acumen training. The two entities also worked together to simplify the financial tools available to market managers—creating a one-page P&L statement highlighting only those numbers deemed controllable by market managers and store operators. The revamped statements, says Dolby, make it easier for those in the field to see the performance of individual stores at a glance and quickly determine the impact of their actions.



AME LEARNING INC. HELPS COMPANIES DEVELOP FINANCIAL ACUMEN TRAINING.

Following the tenet that the best way to learn is by teaching others, market managers also are held accountable for providing informal financial training to store operators in the field. "That's the acid test," says Dolby. "If you go into a store and the store operator can't take you through his P&L, that means the market manager isn't doing his job."

The result of all this effort is that both market managers and store operators now understand how margins work and which goods are the most important to protect—an understanding that has resulted in profitability increases and "shrink" (i.e., reduction in physical inventory caused primarily by shoplifting and employee theft) decreases in stores throughout the province.

## Power to the People

For some companies, accountability goes hand in hand with empowerment. Approximately seven years ago, MacDermid Inc., a global specialty chemicals company headquartered in Denver, CO, embarked on a multi-year change initiative geared toward beefing up the financial acumen of leaders, managers, and line employees throughout the organization. At the time, it had what MacDermid President of the Americas Michael Siegmund characterizes as a "desperate" need to change the results of its business. "After 2000, much of our U.S. market went to China. As a result, we needed to find a new future and do things differently than we had in the past," says Siegmund. "At the time, I believed that if we increased the financial acumen of our people—particularly those in the field responsible for customers, sales, and pricing—they could make more independent decisions that would be fully aligned with our company goals."

To that end, MacDermid worked with the Business Literacy Institute to develop and deliver ongoing financial training for employees throughout the organization. Post-training, the company instituted quarterly review sessions during which man-

agers must walk senior leadership through in-depth reviews of their numbers, and tied performance reviews and compensation, in part, to a demonstrated understanding of the company's metrics and one's performance against them.

Perhaps the most significant results of the initiative, says Siegmund, have come from empowering customer-facing employees—particularly sales reps—by giving them full access to the company's numbers and permission to impact them. Pretraining, for example, sales reps were focused on driving the single metric to which their compensation was tied: top-line sales. At the time, they neither had access to the company's numbers, nor did they have any authority over pricing. "As a result, salespeople didn't know what it cost to manufacture or market the products they were selling, and they never saw the end result of their sales in relation to the company's bottom line," says Siegmund.

Today, by contrast, reps have full access to all of the numbers—including cost information—associated with the products they sell and full authority to establish pricing in accordance with their own judgment. And that judgment is sound, says Siegmund, because reps now are compensated based on individual operating margin—i.e., operating profit after costs—and not on top-line sales, which does not take costs into account.

The impact of the initiative on the company's bottom line has been profound. "MacDermid's business is much healthier than it was five years ago, with a much brighter future," says Siegmund. "Less quantitatively, there is also a hugely different attitude. People are much more confident and optimistic now and feel empowered."

## Communicating the Metrics

Beyond empowering workers and holding them accountable post-training, companies such as Southwest Airlines attest to the fact that transparent, ongoing communication surrounding the key metrics of your business is critical if your goal is to make financial acumen a cornerstone of your culture.

Before the airline company rolled out a single business literacy-related training program, the first item on its agenda was to determine what it wanted to communicate. "The airline industry is complex, so we decided it would be better to take a few outcome measures and focus only on the ones everyone contributes to in one way or another," says Sharon Maas, the airline's manager of business literacy.

So Maas and her team made the language of Southwest's business as transparent and easy to understand as possible by focusing on the company's "magic numbers"—four key metrics, says Maas, that clearly indicate the level of prosperity of the company and its employee owners—including net income, unit cost measure (the costs associated with producing a product), net margin, and invested capital.

Next, Maas' team designed an overall strategy built around these metrics. That strategy, she says, can be summed up in three words: "water on rock." "The idea was that there would be no one program or class that would be the be-all and end-all, and that everything we do is about articulating a single message and communicating that message in as many ways as possible, consistently over time, like water on rock."

As part of this multifaceted approach, Southwest launched "Knowing the Score" in 2004, an initiative that introduced the company's magic numbers to all 32,000 Southwest employees and explained their importance to the organization in a variety of ways, including monthly financial articles in the corporate newsletter and departmental publications, and metrics-based learning modules that were added to an array of the company's new-hire, leadership, and departmental training programs.

Two years later, Southwest delved even deeper into its magic numbers with an encore program entitled "Reel Deal." The company's leaders taught the two- to three-hour workshop to approximately 15,000 employees (another 10,000 took part in an abbreviated version of the workshop). As part of the program, leaders throughout the company were tasked with showing their reports a short video explaining Southwest's financial metrics, their importance, and the way in which they are calculated, then holding in-depth discussions with employees to answer questions and explore the ways in which employees can and do influence these "magic numbers."

Southwest also developed a long-term communication plan to institutionalize the metrics of its business at every level. Cost checklists containing the most common ways employees can contribute to the company's bottom line, for example, were distributed companywide post-training. Flip charts depicting highlights from leader-employee Q&As were posted in various work areas throughout the company. And all leaders received large, laminated posters displaying the company's four magic numbers, as well as blank columns that leaders are expected to fill in and update regularly to detail past-year performance, current-year goals, year-to-date actuals, and quarterly results.

Southwest's relentless focus on communication has paid off in a big way for the company, according to Maas. "Before the Reel Deal program...senior leaders were accustomed to giving a fairly high-level business overview because that's all the average employee might understand, and there were few, if any, follow-up questions. Now, we're consistently hearing back from these... leaders that the many employees they talk to...are much more intelligent about our business, and ask more challenging and probing questions that keep our executives on their toes.

"We discovered there's a real thirst for knowledge about the company's numbers, and now the challenge is to keep up with the demand for even more information," says Maas. "From where we sit, that's a great problem to have."

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