The Building Blocks of Business Literacy

By Karen Berman

Many companies encourage employee participation in the business through suggestion systems, self-managed work teams, and other empowerment programs. However, to participate effectively, employees need preparation such as team building, problem solving, and communication-skills training. Such preparation, however, often excludes an important element to creating participative competence—educating employees about the basics of business.

When we ask employees to participate, we are really asking them to contribute actively to the success of the organization. Yet we rarely, if ever, define success, teach employees how to measure success, or show them how they can contribute to success. For example, it is difficult for employees to make appropriate and useful suggestions for improvement if they don't know which is more important, quality or cost. It can be frustrating to employees when they're asked to help increase profit, if they have never had an opportunity to learn how profit is measured.

Numbers make up the common language of business and how success is measured in terms of profit, cash flow, and ratios. For employees to be involved in improving the business, they must be able to speak and read the language of business. But some company leaders think that not all employees can understand financial information. However, companies that conduct business-literacy training have found that employees of all backgrounds and education levels can learn, and are interested in learning, about the numbers.

Business literacy training provides the context and framework for employees to participate intelligently, creating participative competence. It involves teaching employees such basics as

- how an income statement works and what the numbers mean
- the difference between *profit* and *cash* and why that's important
- key operational measures that employees themselves can affect.

Here are 10 steps for creating a successful business literacy training program.

1. Determine what to teach. Key financial statements, an income statement, a balance sheet, and a cash-flow statement are a good starting point. Those contain the data used to make management decisions. They are also the basic information for evaluating business success, both inside and outside of the company. When employees can decipher such documents, they can understand the rationale behind decisions and the impact of those decisions on the health of the company.

Focus on the company's, the department's, or the team's key indicators of success. At the company level, cash flow may be critically important. That may indicate a need to teach employees about the DSO measure (days sales outstanding), which is the average number of days it takes to collect what is owed to the company by customers. At the department or team level, indicators of success are usually "local" measures that connect to the company's key indicators. For example, if a company is focusing on increasing productivity, you might teach equipment set-up measures (for a manufacturing company) or client contact measures (for a service company).

2. Draw the big picture. The big picture includes a company's financial and operational objectives, and other data that shows organizational, departmental, or team direction. Knowledge of the big picture makes employees feel their work is part of a larger whole, and they begin to understand the why of their work, and the why of decisions.

3. Keep it simple. To the uninitiated, financial statements can look overwhelming and confusing. The vocabulary and concepts may be new to many employees, and accountants tend to use different words for the same concept. For example, a profit-and-loss statement and an income statement are the same thing. Net income, net profit, and earnings can mean the same thing. The important concepts and definitions can be simplified and the language made consistent. Decide what you want to call *profit*, for example, and use that term exclusively.

4. Teach using the familiar. Most companies that teach business literacy start by showing how people manage their personal finances is similar to how it's done at work. For example, an income statement can be compared to a personal checking account. Your paycheck is your revenue. Your bills are the expenses. Any money left over is profit; any deficit is a loss. By using familiar

Test Your Business Literacy

Question: What is the difference between *profit* and *cash*?

Answer: Profit is calculated based on promised revenues matched with expenses related to those revenues. Cash is the actual dollars in the bank. Revenue (and profit from the revenue) is recorded when a product or service is delivered, not when the cash is received. You can show a profit from a sale, but cash might be tight until the customer actually pays the bill.

Question: When a company is said to be a "$700 million company," what does that mean?

Answer: It means that the company's sales are $700 million (not profit and not cash in the bank).

Question: When businesspeople talk about high-margin and low-margin industries, what do they mean?

Answer: Margin is the percent of revenue that is kept as profit. Think of it as how many cents of every sales dollar is kept as profit. A low-margin company might keep just one or two cents of every dollar. A high-margin company might keep 20 cents or more of every sales dollar. For example, grocery stores are a low-margin industry; television is a high-margin industry.

Question: Which document, an income statement or a balance sheet, shows a company's holdings for a specific point in time?

Answer: The balance sheet shows a company's assets, liabilities, and equity for a particular point in time.

Question: What does return-on-investment tell you?

Answer: ROI, calculated by dividing pretax earnings by average investment, tells you the rate of return you can expect from your investment in a piece of equipment, project, or training program. You can then compare that rate of return to other potential projects, pieces of equipment, and investments.

terms, the statements are demystified and the numbers become approachable.

5. Tie it to the company. Business literacy training almost always gets employees interested in their company's numbers. That's an important and healthy interest. Most employees want to make a difference, contribute, and help the company succeed. They begin asking questions because they've learned enough in the business literacy training to take what they know about their jobs and link that to their company's operational and financial measures.

In your business literacy training, show how and where the concepts apply to the company. For example, after teaching the income statement, ask what percent of revenue is profit. After hearing employees' guesses, tell them the real number. They may realize for the first time why containing costs is so important.

6. Show employees where they are in the numbers. The age-old question "What's in it for me?" becomes "Where am I in these numbers?" If you don't provide an answer, employees can't apply the new concepts in their jobs, teams, decisions, or suggestions.

Make the connection explicit in terms of everyday jobs so that employees will see how they can contribute personally.

Teaching business literacy shows that you trust your employees and believe that they can contribute. Don't send mixed messages. Leaders and managers must reinforce the learning.

For example, there are income and expense line items that employees affect directly. For example, customer service representatives affect telephone-expense line items. For a team assigned the job of reducing waste, show the related line items and the impact that waste has on the company's health.

7. Don't teach accounting. Accounting rules and principles govern taxes and record keeping. Accounting rules are critical for consistent, clear reporting and evaluation, but they aren't always the most effective way to teach employees about revenue, income, and cash. You're not training future accountants. An accountant might say, for example, that comparing an income statement to a checking account doesn't address accrual-based accounting. But for the purpose of understanding the difference between revenue and profit, accrual-based accounting isn't important.

8. Make it fun. Let's face it: Sitting in a class learning about an income statement sounds a little boring. Play a game to make it fun, help allay the fear of numbers, and review the concepts. Give prizes to the people who come closest to guessing the actual profit number for the month.

9. Get participants involved. This basic learning principle also applies to business literacy training. It's common for people's eyes to glaze over when you're talking about numbers. The sooner you get them involved, the sooner they'll realize that they can learn the financials and that the information is interesting and relevant. Use such involvement techniques as exercises, reviews, skits, Q&A, and board games adapted to the new concepts. Also have employees help prepare and deliver the training.

10. Show your commitment. Teaching business literacy shows that you trust your employees and believe that they can contribute. Don't send mixed messages. Leaders and frontline managers must support business literacy by reinforcing the learning, answering employees' questions, and continuing to enable them to see how and where they can contribute.

Business literacy training comes in many forms. Some organizations develop their own materials, some purchase them, and some ask consultants to develop customized materials. In any form, business literacy creates participative competence by educating employees about measures of financial success and how they can contribute.

Business literacy training is for all employees. You can start now by asking yourself the five questions in the box.

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