



How to Raise Your Firm's Financial IQ

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We all live and die by the numbers—but do we really understand what they mean? Here's how managers can help all employees understand cash flows and liquidity ratios. From the new book *Financial Intelligence*.

by Karen Berman and Joe Knight with John Case

If your goal is to have a financially intelligent workplace or department, your first step is to figure out a strategy for getting there. We don't use the word *strategy* lightly. You can't just give a one-time training course or hand out an instruction book and expect everyone to be enlightened. People need to be engaged in the learning. The material needs to be repeated, then revisited in different ways. Financial literacy needs to become part of a company's culture. That takes time, effort, and even a little monetary investment. But it's very doable. We'll outline three approaches—not mutually exclusive—that we have seen work.

Tools and techniques

The following tools and techniques hardly constitute an exhaustive list. But they are all approaches that you can implement on your own fairly easily.

Training (over and over)

Start by putting together three short training sessions. We don't mean anything fancy: even a PowerPoint presentation with some handouts works fine (though we would caution you that PowerPoint isn't always conducive to lasting learning!). Each session should last between thirty and sixty minutes. Focus on one financial concept per session. Joe, for example, conducts three one-hour courses at Setpoint—on the income statement, on cash flow and project finance, and on the balance sheet. Depending on your situation, you might look at gross margin, selling expenses as a percent of sales, or even inventory turns. The concepts should be relevant to your team's job, and you should show people how they affect the numbers.

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Offer these classes on a *regular* basis, maybe once a month. Let people attend two or three times if they want—it often takes that long for folks to get it. Encourage 100 percent attendance among your direct reports. Create an environment that tells the participants you believe they are an important part of the success of the department and that you want their involvement. Eventually, you can ask other people to teach the class—that's a good way for them to learn the material, and their teaching styles

might be different enough from yours that they're able to reach people you can't.

Weekly "numbers" meetings

What are the two or three numbers that measure your unit's performance week after week and month after month? What are the two or three numbers that you yourself watch to know whether you are doing a good job as a manager? Shipments? Sales? Hours billed? Performance to budget? Chances are, the key numbers that you watch relate in some way to your company's financial statements and hence ultimately affect financial performance. So start sharing those numbers with your team in weekly meetings. Explain where the numbers come from, why they're important, and how everybody on the team affects them. Track the trend lines over time.

You know what will happen? Pretty soon people will begin talking about the numbers themselves. They'll start figuring out ways to move the needle in the right direction. Once that begins to occur, try taking it to the next level: *Forecast* where the numbers will be in the coming month or quarter. You'd be amazed how people begin to take ownership of a number once they have staked their credibility on a forecast. (We've seen companies where employees have set up a betting pool on where a given number will be!)

Reinforcements: scoreboards and other visual aids

It's fashionable these days for corporate executives to have a "dashboard" on their computers, showing where business's performance indicators stand at any given moment. We always wonder why operating units don't have the same thing out in the open for all employees to see. So we not only recommend discussing the key number or numbers in meetings, we also suggest posting them on a scoreboard and comparing past performance with present performance and future forecasts. When the numbers are out there for everybody to see, it's tough for people to forget or ignore them. Remember, though, that small graphs can be easily ignored—and if they can be, they will be. As with your dashboard, make sure the scoreboard is clear, straightforward, and easy to see.

We also like the visual aids that remind people how the company makes money. They provide a context for the day-to-day focus on key numbers. Our own company has developed what we call Money Maps, illustrating topics such as where profits come from. . . . The map traces the entire business process at a fictional company, showing how much of each sales dollar goes to paying the expenses of each department, and then highlighting how much is leftover profit. We customize them for our clients, so that everyone can see all the operations in their companies. But you can even draw maps and diagrams yourself, if you know the material well enough. A visual is always a powerful tool for reinforcing learning. When people look at it, it reminds them of how they fit into the big picture. It's useful as well. One company we know of put up two copies of the same map. One showed the company's target numbers—what its best branch would do. On the other, managers wrote their own branch's actual numbers. People could see for each critical element how close they were to, or far away from, the best branch's performance.

Teach those basics in a way that ensures that no one is embarrassed about what they didn't know.

In all of these approaches, you have to remember a few key precepts that will have to do with the way adults learn. Probably the most important precept is to involve them in the learning. Adults learn least well if lectured to; they learn best if they are doing it themselves. So after you give them the basics, ask them to do the calculations, discuss the impact, and explain the meaning. We bet you'll hear some amazing things, like new ideas for how to reduce downtime or improve cash flow. Adults learn

especially fast when they see a reason to. If they understand the big picture—and if they understand how what they're learning connects to their job, their impact on the company results, and their own financial situation (e.g., job security, the chance for raises)—they'll pay close attention. Just be careful not to make assumptions about what they already know. (Managers often assume their team members know more than they really do.) Instead, teach those basics in a way that ensures no one is embarrassed about what they didn't know. Keep the teaching tightly focused, kept it fun, and remember, don't try to make them into accountants!

Of course, if you are really ambitious, this could become an organizational initiative. You'll need a high-level sponsor (such as your CEO or CFO, or an operational VP), and you'll probably need some outside help to develop and deliver the education. But if the culture is right in your company, the opportunity for improvement is huge. At one company we worked with, part of the education process included a change in language (which can be tremendously important in any culture change). It started at one location, where the regional manager began calling employees business partners. These new business partners took the change seriously, mostly because there were other things going on that told them management truly saw them as partners, and began calling each other business partners. Before long they had even changed the parking lot signs, so that the word *employee* effectively disappeared from the location. Then other locations began to catch on, and soon the president of this national company was talking about business partners in the internal newsletter. The final piece came when a large customer wrote a thank-you to a vice president, calling the employees of this company business partners. The new language, in turn, was reflected in greater commitment, more involvement, and better results.



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