

BRIGHT IDEA

MAKE BUSINESS LITERACY AND FINANCIAL TRANSPARENCY PART OF YOUR COMPANY, AND **WATCH YOUR PROFITS SOAR.**

BY KAREN BERMAN, Ph.D. & JOSEPH KNIGHT, MBA

TODAY'S BUSINESS ENVIRONMENT requires that everyone in the company must contribute to organizational success. Imagine the power and energy your organization would have if your leaders, managers and employees acted like businesspeople. It is possible to harness that energy through two business initiatives—business literacy and financial transparency. Through the case of Oscar's Delivery Service Inc. (ODS), you'll learn about the transformation from employee to business partner and how to make that happen.

ODS is a national transportation company. Each employee has a high school education at most, and the work can be difficult. In the early 1990s, a new regional vice president arrived on the West Coast. She had worked in smaller regions and assumed that the work she did there would apply

to this larger region. But she quickly learned that she couldn't connect with each individual; there were just too many.

Then came the biggest shock of all: a union attempt. Though the union was not voted in, the vice president took it as a message from employees that they felt disenfranchised. Yet she knew their teamwork and commitment were key to success.

She came across the ideas of business literacy and financial transparency, which fit her philosophy that employees should be partners in success, and fit with ODS' philosophy that employees are a competitive advantage. ODS already offered a strong salary and benefits package, but she knew that creating a company of businesspeople meant more than just pay and benefits.

Business literacy and financial transparency are interrelated and based on the idea that for a company to succeed, everyone must understand how success is measured and how they make an impact. Business literacy focuses on teaching about the business from financial, strategic, process and leadership perspectives. Financial transparency is the step after business literacy, ensuring everyone in the organization has access to information so they understand where the company is going, how it will get there and what the results are so far. In financially transparent companies, financial results are shared and discussed weekly or monthly with everyone in the organization.

These ideas depend on each other—without business literacy, financial transparency is meaningless to employees; and without

GET LITERATE

A highly sought-after Business Literacy Institute class is "Finance for Nonfinancial Managers," a two-day program customized with a client's financial statements, financial ratios, key drivers and more. Use these sample learning objectives—pulled from that class—to get yourself thinking about what you want to accomplish. After this program is complete, attendees will be able to:

1. Discuss why it is important for everyone in the organization to understand the financials and review them on a regular basis.
2. Describe the foundational concept of the time-value of money.
3. Explain income statement, balance sheet and cash-flow statement purpose, terms, definitions and formulas.
4. Discuss the key drivers in their own companies' income statements, balance sheets and cash-flow statements.
5. Explain the difference between profit and cash and why both are important.
6. Describe the basics of budgeting and variance analysis.
7. Define the profitability, leverage, liquidity, efficiency and DuPont ratios.
8. Calculate and explain the meaning of their own companies' ratios.
9. Describe the three methods used to determine ROI (internal rate of return, payback and net present value) and the pros and cons of each.
10. Explain his or her impact on the key statements, ratios and key measures in their companies.



STRATEGY MAP The strategy map used mountain switchbacks to illustrate ODS' four strategy quadrants: people/culture, internal processes, customer focus and financial growth. The idea of accomplishing the initiatives on each switchback before continuing on the climb helped everyone see what needed to be accomplished to implement the strategy. And, to the surprise of some ODS leaders, every employee could identify where he or she fit on the map.

You can accomplish business literacy in many ways, including games, training classes and online learning tools (see “Get Literate” on page 34). Financial transparency comes about through whiteboards, goal-setting, weekly meetings and overcommunicating about the numbers (see “The White Stuff” on page 38).

The ideas of business literacy and financial transparency are appealing to many entrepreneurs, yet implementation can become cumbersome and dry. Maps simplify the process. They include the big picture and the details, allowing employees to learn how the business works and where they fit in. These are not process maps, road maps or flow charts. They are illustrations that support both business literacy and financial transparency.

All the elements of ODS' program were critical to its success; the Money Maps were the tools that bridged business literacy and financial transparency. These

financial transparency, business literacy is just one more training program that went nowhere.

GETTING STARTED

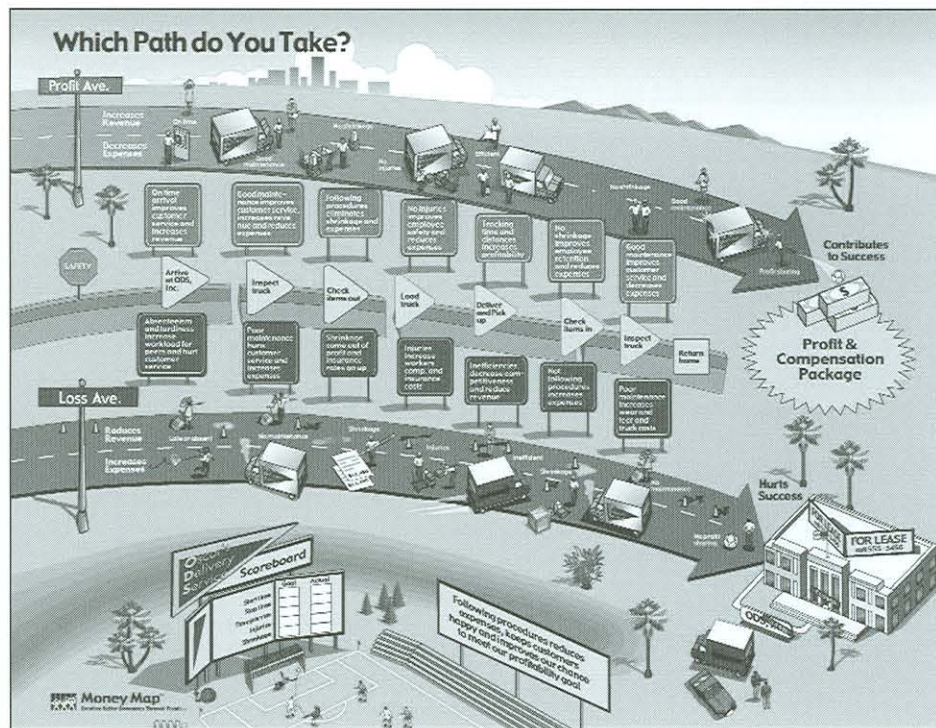
The first step at ODS was to assess employees' level of understanding of the business and the organization's culture. The assessment revealed, among other things, that:

- Employees didn't understand the information already being shared, although management assumed they did.
- Employees believed their work had little impact on the company's success.
- Middle management couldn't identify or define the organization's key numbers.

The findings informed the development of a business literacy and financial transparency program called “You Are the Difference.” Everyone in the organization

PATH MAP The path map vividly illustrates the impact employees have every day on the success of the company. The basic daily routine of an ODS employee is outlined in the center of the map with yellow signs. Employees have two choices every day: to take Profit Ave. or Loss Ave. as they work. Employees look at the actions on each path and the implications found in the billboards, and they can see that they affect revenue and expenses with almost everything they do. They choose whether to help or hinder success with their daily actions.

attended a half-day training session that outlined ODS' philosophy, strategy, income statement and key measures. Three "Money Maps"—strategy, path and money-flow maps—were used as part of the training program and the reinforcement process. After the training, managers began holding weekly meetings, setting short-term team goals, and posting and discussing financial results.



Where the Money Goes at ODS, Inc.



MONEY-FLOW MAP The money-flow map gave everyone an exact picture of the costs to operate ODS, and how much is left over as profit. It starts with \$100 in sales, and following the truck along the road, the costs of each part of the business, from facilities (\$4) to labor (\$31) to crashes (\$2) are identified. This map became the foundation for discussions about opportunities for improvement.

maps were integrated into the business literacy training session and are used as ongoing financial transparency tools. The money-flow map, for example, is updated monthly. Employees see the impact of their efforts and learn where to focus their attention.

In classroom training, learning builds linearly and is reinforced by spiraling back and integrating the basics into more complex concepts. Maps accelerate learning and encourage the student to be the

teacher by discussing numbers, activities and processes with peers and superiors.

Business literacy and financial transparency can transform people and organizations. When integrated into how managers manage, how leaders hold people accountable and how employees work, it simply becomes part of the organization.

PUT ON A NEW FACE

Today, ODS is a different organization. The word *employee* is no longer used;

everyone is a business partner. Customers send e-mails to managers, using the phrase "business partner" as they describe the high level of customer service and professionalism. Profitability has risen without an increase in sales. EVA results have jumped to new levels. Vehicle and workers' compensation costs are down. Profit sharing is at its highest ever. And, just as important, trust has increased, turnover has decreased, and morale has improved.

To start your company on the path toward business literacy and financial transparency, consider the following:

1. Identify needs. What do your employees currently understand about the business? What are the key drivers of your company's success?
2. Consider the long-term nature of business literacy and financial transparency. They are not "flavor of the month" programs; they are changes in how you run your business.
3. Create a training program, then share business results weekly or monthly.
4. Use managers and leaders to encourage discussions about the business.
5. Lead the process with your words and actions. ■■

About the Authors

Karen Berman, Ph.D., is the founder of the Business Literacy Institute (www.business-literacy.com). She published the first academic study in the field of business literacy and now consults, speaks and writes on the topic. Joseph Knight is a partner and senior consultant with the Business Literacy Institute and is a finance and business literacy trainer. He is a professor at the University of Phoenix and Westminster College of Salt Lake City.

THE WHITE STUFF

Setpoint Companies, an automation and roller coaster company, has used whiteboards as its primary means of financial transparency for more than five years.

Every week, the staff of the entire company meets on the shop room floor. A whiteboard, covering a 20-foot-by-10-foot space on the shop wall, is the focal point of the meeting. Each project manager has calculated, and reports, the gross margin, hours and gross profit per hour for each of his or her projects. They write numbers on the whiteboard for all to review, and project managers and their teams are held accountable for the results. The teams then hold discussions about how to bring projects back to profitability, using successful projects as models to learn from.

In this environment, information is easily shared, and no one is intimidated about speaking his or her mind. In one meeting, for example, a Setpoint manager proposed that a new piece of equipment be purchased for the shop. Before the CEO or CFO could say anything, a mechanical shop tech brought up three concerns:

1. The company would need someone to run the equipment full time;
2. The company would have to buy the equipment with 20 percent down and 80 percent financed, so the company would have to come up with the cash; and
3. This time of year business is slow and cash is tight. The shop tech then asked, "With all that in mind, does it make sense to buy it, and if so, who would run it?"

All this from a mechanical shop tech. Without a word from the CEO and CFO, the group decided not to buy the equipment.