

Beyond Financial Literacy: The Importance of Business Acumen Training for Managers and Employees

By Raymond D. Green

The message to CLOs is becoming clearer and clearer. Company leaders want them to align educational offerings with the organization's strategic objectives. That's not an easy challenge.

They must ensure that education and communication initiatives reinforce the company's goals. They must help employees understand these goals and develop the skills and motivation to contribute to them.

And at the most basic level of alignment, they must make sure that every employee understands how the company makes money. That includes understanding how profitability is driven, how assets are used, how cash is generated and how day-to-day actions and decisions, including their own, impact success.

Developing *business acumen* is fundamental to business alignment.

Consider Southwest Airlines, which was founded in 1971. With 33 straight years of profitability, the airline has become widely recognized for the motivational culture it creates for employees *and* its extraordinary dedication to customer service.

Much of the industry has suffered during the years of Southwest's growth, including many airlines that have merged or declared bankruptcy. Southwest buys the same planes and the same jet fuel as other airlines, and pays its employees competitive wages and benefits. What's the difference?

Executive Summary

Organizations today need managers and employees who can contribute to financial success. That's why many of them are offering financial literacy training. However, a Finance 101 course that focuses on terminology and financial statements isn't enough. Instead, developing the *business acumen* of employees — going beyond financial literacy to a true understanding of what it takes for a business to make money — is the key to producing real results. In this white paper, you'll learn what business acumen is and how two of the country's leading companies used business simulations to help managers and employees impact the bottom line.



Unlike some of its competitors, Southwest's management team involves employees in the company's financial results, explaining what the numbers mean and, more important, helping to link everyone's decisions and actions to the bottom line. The airline has an open culture, one of inclusion at all levels, and employees understand their roles in providing great service and keeping costs in line.

Certainly there are other factors that contribute to the success at Southwest, but it's difficult to ignore the positive impact of an approach that develops the business acumen of all employees and managers so that they can contribute to the airline's success.

An Educational Challenge

Unlike those at Southwest, individual contributors and managers in many organizations today have not been educated about the big picture of their businesses. They have a narrow focus on their own departments and job functions and aren't able to make the link between their actions and the company's success. Multiplied by hundreds or even thousands of employees, this lack of understanding — the lack of true business acumen — means that too many decisions are being made and too many actions are being taken that don't align with business objectives.

How can training help bridge this knowledge gap? For many companies like Southwest, implementing learning

programs designed to develop a strong foundation of financial literacy and business acumen has made the communication of financial results to employees easier and more effective.

Business Acumen: A Definition

Very simply, *business acumen* is the understanding of what it takes for a business to make money. It involves financial literacy, which is an understanding of the numbers on financial statements, as well as an understanding of the strategies, decisions and actions that impact these numbers.

Someone with financial literacy, for example, would be able to "read" the company's income statement. This employee or manager would understand the terminology (revenue, cost of goods sold, gross margin, profit, etc.) and what the numbers represent (i.e., gross margin equals total sales/revenue less the cost of goods sold).

With business acumen, the individual would be able to "interpret" this same income statement, taking into consideration how company strategies and initiatives have impacted the numbers during specific periods of time.

Consider a simple comparison: In football, it's necessary for players to know *how the game is scored* as well as *how to play the game to change the score*. In business, financial literacy is understanding the "score" (financial statements) and business acumen is understanding how to impact it (strategic actions and decisions).



Asking the Right Questions

When business acumen spreads through an organization, employees and managers begin to ask questions. These questions are directed not only at the organization, but also at themselves and their departments — questions about processes, products, systems, staffing and more that can lead to necessary and innovative decisions and actions.

Business acumen helps everyone understand that it's not enough to ask, "How do we cut costs?" or to say, "We need to increase sales." Digging deeper, employees with higher levels of business acumen will ask questions that take into consideration the far-reaching impact of potential decisions and demonstrate a greater ability to make the connections between performance and results.

Questions that could get to the root of disappointing operating ratios, for example, might include:

- Have production costs gone up? If so, why?
- Have we changed prices? If so, how has that affected our margins?
- Are there any competitive issues impacting our performance?
- Have there been any customer requirement changes?
- If our costs per unit produced have gone up, can we better control the efficiency of our production line or our service delivery?

- Is there a way to produce a greater product volume at the same cost?
- Can we raise prices, still provide value to the customer and remain competitive?

When questions become more specific, the right decisions can be made.

Business Acumen for Managers

Managers at all levels need a high level of business acumen to do their jobs. Every day, they make decisions about employees, projects, processes, expenditures, customers and much more — decisions that ultimately roll up into larger organizational results. Managers who make these decisions while looking through a departmental lens only, with a limited understanding of how these decisions affect financial results or how they are tied to the organization's goals and objectives, are working in silos that can ultimately damage the company.

Managers are often promoted to their positions of responsibility because of their "technical" expertise. They've been successful customer service representatives, great salespeople, innovative researchers or well-respected IT professionals. They are now entrusted with decision making, budgets, projects and people. They often do not have financial literacy, nor have they developed a higher-level perspective about the business. Over time, especially if they move up the managerial ladder, they may develop these. Or they may not.



Organizations need managers who operate as part of the management team, taking accountability for their own results as well as the results of the entire company. Therefore, more and more organizations have built financial literacy and business acumen into managerial competency requirements and have integrated business acumen training into management curriculums.

Business Acumen for Employees

Although there is little debate about the need for managers to develop business acumen, organizations sometimes question the need for this understanding at employee levels. But frontline contributors, those who are most directly involved with production or customer service, for example, take actions every day that impact business results.

Consider the salesperson who discounts products, or the service representative who deals with an unhappy customer, or the maintenance person who notices a problem. The actions each of them takes might erode profit margin, lose a good customer or allow safety issues to escalate. Without an understanding of how their actions impact the company's

results, they might not have the context to consider alternatives.

Many organizations have determined that financial literacy and business acumen aren't just for managers anymore. They have decided to develop a company of people who understand the business; who know what return on assets and return on investment mean; who know how inventory turnover rates

affect results and the importance of positive cash flow; who see the connection between the company's financial success and their own health benefits, 401(k) plans and more. In other words, they need people who understand the "business" of the business.

During a business acumen session, new managers at a major retailer found out just how difficult it is to make a profit. Their facilitator used this example: A warehouse employee dropped several cases of lightbulbs. The bulbs shattered and so did the opportunity to make a \$25 profit. The first reaction of the class was, "So what's \$25 to us?" But after calculating the company's net income at just over 1 percent, they realized that the store would have to sell \$2,500 in new merchandise to make up for the lost profit on the shattered bulbs!

In his book *Good to Great*, Jim Collins says, "We found no evidence that the 'good-to-great' companies had more or better information than the comparison companies. None. Both sets of companies had virtually identical access to good information. The key,

then, lies not in better information, but in turning information into information that cannot be ignored."¹

With an increased level of business acumen, managers and employees can better interpret information, making the connection between their actions and the company's results.



Another Reality of Today's Business World

A public company's operating results are well known at the end of each quarter. Analysts, investors, the media, employees—everyone has access to a company's financial results. With a significantly increased focus on accounting improprieties over the past few years, senior management has become highly conscious of the need to provide accurate and timely financial information. And employees have become much more likely to wonder about these numbers. "Is my company being honest? Are the numbers telling the whole story?"

Without a fundamental understanding of financial results and an ability to interpret them, employees may become suspicious and, ultimately, disengaged. Disengaged workers, in turn, negatively impact productivity and profits.

CEOs of public companies, then, must ensure that managers and employees are able to understand the numbers and have confidence in them. That means effective business acumen education as well as ongoing and open communication from the top.

Former GE chairman Jack Welch said in his book *Straight from the Gut*, "Getting every employee's mind into the game is a huge part of what the CEO job is all about...There's nothing more important."

The Big Picture

As we have become a nation of specialists, armed with new information technology and enterprise-wide operating systems, it has become easier for managers and employees to become myopically immersed in their own jobs. This immersion can have the effect of obscuring their view of the big picture. They may not consider the cumulative effect of wasted assets. They may have little regard for the objectives and responsibilities of other team members, departments or divisions. They may lack the motivation to invest personal energy in critical project work.

Organizations that engage in developing business acumen provide a clearer vision and an overall context within which employees can work, while creating an environment that is more likely to break down internal barriers. There is less waste and less ambivalence. There is increased innovation. Employees are more engaged, they understand their role and its impact on business results, and they are more likely to believe that their efforts really matter. They are more likely to think like a business owner.

Think Like an Owner

To be successful, business owners must be able to helicopter above day-to-day issues and see the big picture. They must understand how the pieces of the business fit together to impact profitability and cash flow, and they must be able to



assess the risks and rewards of potential decisions. The best business owners study the numbers, ask themselves tough questions, analyze their mistakes and take decisive action.

To truly understand the business, owners have to understand how that business makes money — in other words, how it produces *sales, profit and cash*. Organizationally, they know that it's about *people, processes and productivity*. On the customer front, it's about *satisfaction, loyalty and market share*. Ultimately, every action taken and every decision made in any of these areas will impact sales, profit or cash.

When managers and employees begin thinking like owners, they, too, look at the big picture, understand how all the pieces fit together, and assess risks and rewards. They understand, like an owner, how the company makes money, how it stays in business and how they contribute to its success.

The benefits to an organization of engaging managers and employees in

this kind of ownership thinking are obvious. So how can a company develop the business acumen of its people?

*"Numbers are not magical, and they aren't sacred. They are important only as clues to the reality that produces them. To use numbers effectively, you have to strive constantly to understand that reality — to move from the abstract to the specific. Many a profitable company has gone out of business because people neglected to find out the reality behind the number on the bottom line. You can't pay your creditors with money that's tied up in stale inventory or uncollectible receivables."*²

Jack Stack, *The Great Game of Business*

The Author's Story

In my first business, I sold double knit sport coats out of the back of my station wagon. I bought them for \$15 and sold them for \$30. My customers were individuals and they paid me on the spot. The business was small, very profitable and the cash flow was great! As that business grew, I sold larger orders of coats to retailers; revenues and accounts receivables grew. That should have worked well, right? Wrong. Retail customers sometimes took up to 90 days to pay and I learned a painful lesson: Profit and cash are not the same thing.

My next business involved employees. Lots of them. And I learned another lesson. Many of my employees thought there was an inexhaustible supply of money for supplies, inventory, marketing and benefits. It was easy for them to see the sales rolling in. It was harder for them to see the costs of operating a business. So I learned that I'd better share the numbers with them and get them involved in making those numbers work for the good of the business and themselves. My signature was on the credit line, but my employees were on the front line!

In my current business, I continue to educate my employees and involve them in the business. At the same time, my company works with Fortune 1000 companies to help them develop the financial literacy and business acumen of their managers and employees. I've learned that companies, big or small, need an educated workforce that understands how the company makes money and where they fit into the big picture of financial health and stability.

Developing Business Acumen: Two Stories

Entrepreneurs are generally forced to develop business acumen on their own. They are hands-on with their businesses and have to make all the decisions as they go along, whether good or bad. They either learn from their mistakes or fail.

It's very different for managers and employees in an organization. They aren't involved in all aspects of the business, and they make



decisions primarily within their own areas of responsibility. Since seeing the connections isn't easy, they need to learn in some other way.

Books and lectures can help. But business acumen is best developed experientially. Learners must be able to analyze situations, ask questions, discuss issues with other learners, consider options, make mistakes and see results.

Although there are a variety of ways to accomplish this kind of experiential learning, many companies have found that simulations, which mirror reality and allow learners to experiment in a safe environment, are one of the best ways. Here are the stories of two companies who chose to educate their learners with business simulations.

Business simulations are designed to immerse learners in situations similar to those that they encounter in their jobs. Effective simulations will engage learners through a variety of discovery learning techniques: case studies, colorful visuals, team activities and gaming elements.

The Westervelt Company

The Westervelt Company has seen many changes since its founding in 1884. Originally a large, privately held paperboard and packaging materials company, it found that it could not remain cost and price competitive and chose to divest itself of those assets.

The owners decided to grow and develop other businesses — sporting lodges, wildlife consulting, a lumber facility, a real estate business and mitigation banking — all of which complemented the company's 500,000-acre land base.

As Westervelt's business transformed, it became clear that many employees did not understand the new corporate strategy and the changes that were occurring because of it. There was an increasing sense of frustration, and rumblings of discontent could be heard. In order to engage and align employees, the executive team realized that it needed to provide a foundation of business acumen for employees and managers.

Using a business simulation board game, Westervelt gave its managers and associates an opportunity to experience what it's like to run a company. As they played the game, learners made decisions about products, processes, pricing and more, and they saw how those decisions impacted financial success.

Laura Hasting, director of training at The Westervelt Company, says, "The participating employees began to see how difficult it was to consistently make a profit. They realized, through the discovery learning process, that they had to manage the money carefully, that revenue was hard to generate and profits more challenging still, that costs had to be contained and that there really was no place for waste."

In fact, learners quickly came to realize that the owners and senior leaders of Westervelt faced similar business issues every day. And it became easier for them to understand the reasons for the company's changes in business strategy.

"What made the simulation relevant to improving financial and business acumen," Hasting explained, "was when the employees began making the connections between the operating results of the game and the operating results of the company."



Hastings, who has been a training professional for 16 years, believes that discovery learning is the best way to make sure that learners really learn. “The experiential, hands-on discovery learning process makes the content memorable. Videos and lectures just do not work, but having the questions placed in your hands, seeing what the options are before you and the results of your decisions, really gets everyone engaged.”

Southwest Airlines

Southwest Airlines is one of the consistently profitable companies that makes “business literacy” a core component of its employee training programs. Every employee has a solid understanding of what a new customer, and new revenue, means to the company. Employees also know how the loss of a customer can impact the business.

According to Elizabeth Bryant, director of leadership training at Southwest Airlines, “Our training covers how the financial ratios such as return on assets and various margins are determined. Knowing that team managers, supervisors and all employees have this knowledge enables the company’s leadership to present detailed financial reports and explain to the teams where the margins need to be. Management can speak more in depth to all the employees, and the employees understand what the objectives are.”

Bryant added, “Because we don’t waste the little things, because we track every penny and every activity, we’ve all come to know the importance of each cent. With the pennies in hand, we spotlight the idea of compound interest— for example, how the small savings help us by year’s end and how small

amounts of waste can conversely add up to hurt us.”

Consider the importance of a key operating metric for the airline industry — operating cost-per-seat mile. This is how much it costs an airline to fly one seat one mile. All the operating costs are divided by the total number of seat miles (the total number of miles of all the seats that were flown for a given period, whether a passenger was in the seat or not). Much of the industry has had cost-per-seat mile results at or over 10 cents. Southwest Airlines’ cost-per-seat mile is about 6.5 cents. The lowest cost-per-seat mile in the industry almost 25 years ago was just over 5 cents.

How do they do it? Certainly there are a number of factors that lead to success. However, one of the key influences is Southwest’s ongoing training in business acumen. This training ensures that employees know:

- How challenging it is to ensure ongoing profitability; making a profit can never be taken for granted
- The importance of utilizing the benefits of the good years to prepare for the tough years
- The impact of individual actions and decisions to the bottom line

In other words, Southwest invests in training to help employees think like business owners. This, in turn, produces real results, like its consistently low cost-per-seat mile. When Southwest’s learning team decided to implement a business acumen simulation several years ago, there was some initial concern about how well it would be received.

Bryant explained, “Some people, especially those without



financial training, were nervous about the topic. We are such a people-oriented company that we didn't want people to think that now we're just a financially oriented company and everyone will be judged purely on financial performance. But we positioned the need for the business literacy training as another way to prove that we actually care tremendously for each employee. We explained that if you understand what the numbers mean then you can better understand how your work provides an integral contribution to the business."

Southwest Airlines, according to Bryant, has never had a layoff — a rarity in the airline business. The more their employees understand the challenges of the business, the better they appreciate the importance of making smart decisions every day.

Bryant concluded that the discovery learning techniques in a robust business simulation work well in the Southwest culture because of the team orientation. "All the participants learn that they can't individually make it all happen," said Bryant. "They learn that they have to look beyond themselves, act and think like an owner, and realize that our efforts and financial results here are not just for a career, but for a cause. It's this cause-oriented philosophy toward delivering a low-cost, high-quality service that allows people the opportunity to travel. Our success at achieving positive results translates to individual opportunities to work, to grow and to continually think of innovative ways to improve our business and serve our customers."

The Classroom Advantage

These two companies chose to develop the business acumen

of managers and employees by using a classroom-based simulation, facilitated by instructors at company sites.

Although online options were available and were used in some cases to supplement the instructor-led training sessions, they decided that there were significant advantages to tackling this subject in a "live" session where they could leverage the power of :

- **SHARED KNOWLEDGE AND EXPERIENCE:**
Learners bring their own perspectives and issues to the session.
- **TEAMWORK:** Learners work together, make decisions together and rely on each other as they learn.
- **COMPETITIVE FUN:** Small teams "play" against each other and enjoy a competitive environment.
- **COMPANY-SPECIFIC DISCUSSIONS:** The learners' common interest in their own company's financial and strategic issues allows for greater analysis and depth of discussions and a true "connection" between the learning simulation and the organization's reality.
- **LEARNING MOTIVATION AND COMFORT:**
Learners who may not be comfortable with the subject of finance find themselves playing a game in the comfort of a team environment.

Although there are a number of educational approaches available to organizations in the area of business acumen, classroom-based training that brings together teams of learners can help ensure that learning occurs and that connections to the business are made in ways that prompt action back on the job.



The Bottom Line

More than ever, successful companies will need to focus on developing the business acumen of managers and employees. These companies will realize that when their people understand the numbers, when they understand how their departments contribute to the company's objectives and when they see how their own decisions and actions make a difference, they will begin to operate as part of a team rather than in a departmental or personal silo. And a critical piece of the alignment puzzle will be solved.

With widespread business acumen, companies can have a powerful asset — educated, knowledgeable and motivated employees. And with this asset, those will be the companies best positioned to succeed.

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 - 2 Stack, Jack. *The Great Game of Business*. 1994. Currency Doubleday.
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Author: Raymond D. Green Chief Executive Officer, Paradigm Learning



Raymond (Ray) Green is cofounder and CEO of Paradigm Learning. Paradigm Learning is a corporate training and communications company specializing in the design

of business games, business simulations and Discovery Maps®.

In 1994, Paradigm launched its flagship product, *Zodiak*®: *The Game of Business Finance and Strategy*. To date, more than one million people in 600 organizations worldwide have developed higher levels of business acumen by participating in this exciting, fast-paced board game. As participants run the fictitious Zodiak Company, they implement strategies and make decisions that have short- and long-term impact on the bottom line. As *BusinessWeek* headlined: "Zodiak allows employees to see things through the bosses' eyes."

Ray has been quoted extensively in such publications as *The Wall Street Journal*, *CFO* magazine and *BusinessWeek* about Paradigm Learning's approach to corporate education, including business and financial literacy for all employees. He has also been interviewed on CNN's Headline News about this subject.

For more information on Zodiak®: The Game of Business Finance and Strategy or to schedule a product demo, please call (813) 287-9330 or visit us at www.ParadigmLearning.com.



Test Your Financial IQ

See if you can answer these questions, then ask yourself how many of your managers and employees know the answers.

True or False?

1. Profit is the same as cash.
2. Equity is the ownership amount of stockholders.
3. Cost of sales refers to a method of spreading the cost of a fixed asset over several accounting periods.
4. Return on assets is a financial ratio that measures how well a company is using its resources to generate operating income.
5. Retained earnings are the net profits or losses within a specific accounting period.

Answers: (F) (T) (F) (T) (F)

P A R A D I G M  L E A R N I N G

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Island Center, 2701 North Rocky Point Drive, Tampa, Florida 33607 • Phone (813) 287-9330 • www.ParadigmLearning.com