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## Painless Financial Literacy for Your Team (and You)

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## Painless Financial Literacy for Your Team (and You)

**C**ALL IT a trendlet, or a trend-in-the-making. A small but growing number of companies are deciding that their employees should understand basic financial concepts and terminology. They teach people how to read a P&L and a balance sheet. They explain what it means to make a profit, or to invest in a capital asset. Up-and-coming managers, of course, have always been expected to know finance. What's new is the notion that computer programmers, sales reps, and even hourly employees should also have a grasp of financial fundamentals.

Why now? "Over the past ten years, many companies have been trying to tie their people closer to the business," explains Lori Nerheim, a communications consultant with Hewitt Associates LLC. "They've introduced programs like stock options, profit sharing, and performance management, where they're paying for the achievement of financial results." Trouble is, says Nerheim, few employees outside the accounting department know how to assess their company's financials, let alone understand how they themselves can affect financial performance. "You want a situation where the average person can say, 'I see my line item on the balance sheet or the income statement—and I see what I can do to create more value.'"

Operating managers echo this refrain, partly because their newly lean organizations can no longer afford to have supervisors standing over employees telling them what to do. "From the standpoint of alignment with the organization, people truly have to understand the importance of financial performance," says Jim McCully, controller of the Commercial Nuclear Fuel

Division of Westinghouse Electric Co. "They have to know how important it is to them personally, and they have to understand how they can have a direct impact on the financials."

For many people, the prospect of learning finance is distinctly unappealing. Some remember doing poorly in high-school math. Others figure that anything involving accounting will be stupefyingly boring. But now there are some painless—even entertaining—tools available for teaching dubious employees the financials.

One example is a course recently developed by Hewitt in conjunction with Abbie Smith, a professor of accounting at the University of Chicago's Graduate School of Business. Dubbed *Creating Value: Working to Win*, the all-day class utilizes multimedia instructional techniques, including humorous videotaped sketches prepared by Chicago's famed Second City comedy group. It also gives employees hands-on exercises in applying what they have learned—for example, writing down ways to save money in their work areas. Guidant Corp., an Indianapolis-based medical-device manufacturer that has been serving as a beta site for the course, is now rolling it out across the company. "We put people from the same functional area through the program together," reports HR vice president Kathleen Lundberg, "because they're better able to come up with cost-saving ideas and then implement them."

The Hewitt developers are following in the footsteps of Educational Discoveries Inc. (EDI), which markets two financial-education seminars. *The Accounting Game* is aimed at

employees with no prior knowledge of finance; *The Financial Game for Decision Making* is designed for nonfinancial managers. Both dress up their pedagogy with music, game playing, and exercises. "At first people thought they were a bit too gimmicky," says Westinghouse's McCully, which engaged EDI to create an intensive two-day program combining elements of both seminars. "But everyone, to a person, has found them extremely effective in providing a learning experience."

Another alternative: choosing one of several business-simulation games now on the market (see "If you want to learn more..." page 4). Typically, players gather around a game board reminiscent of Monopoly or Life. Each employee or team acts as senior management of a company, making decisions about the business and learning to track the financial impact of those decisions. The play is fun—"Zodiak has the best reputation of any class at Boeing," says program manager John Hippely, in reference to one such game—but it's also instructive. "You can see the lights coming on," says HR vice president Cathy Medeiros of Parker Seals, a group of Parker Hannifin Corp., which utilizes a simulation known as Biz Wiz. "You hear associates saying, 'Oh, you mean if we scrap \$40,000 worth of materials, we don't have to sell just \$40,000 worth of product to make up the loss, we have to sell a lot more than that?'" The simulation really helps make the connection between sales and profits."

These seminars and games are just tools; their effectiveness depends as much on how they're implemented as on the content. For such programs to have lasting effects, say specialists in the field, managers need to understand a few key principles.

**Customization is worth it.** All the seminars and most of the games can incorporate company-specific financial terminology, goals, situations, and metrics. Yes, it's more expensive. But

## Financial Literacy...

the point isn't to teach generic accounting, the point is to help employees understand the business they work for. If a service company has no COGS line or inventory, there's no need for people to learn financial statements that include those lines. More important, a customized program allows employees to see more easily how their own jobs affect financial performance. "When we're talking to our projects and marketing groups, we can show them the importance of timely and accurate invoicing in the collection of receivables," says McCully. "That has an immediate impact on the cash-flow statement."

### Real learning takes time.

"Companies say, 'We need to make our people business partners,' and then allocate four hours for the training," laments Biz Wiz developer Don Barkman. "If that's all it took, we could shorten the MBA curriculum to three weeks." Barkman's approach requires employees to go through some basic training (including reading six self-study booklets) before playing the simulation game; the game itself requires a couple of hours for every year of running the imaginary busi-

ness. Seminars typically require at least a day, sometimes two.

**Follow-up is essential.** "Once you start a training program, you have to follow through," says Karen Berman, a Los Angeles consultant who develops business-literacy training courses. McCully's Westinghouse division distributes financial data to a wide range of employees, taking care to use the same format and terminology they have learned in the course. Guidant asks for a written summary of the cost-saving ideas generated during its course, then follows up with the unit's manager four weeks later to see if they have been implemented.

**Don't forget WIIFM.** "What's in it for me?" is a question that greets every change initiative or instructional program—and it needs to be addressed up front. "We explain precisely what the links are between the company's financial results and the rewards employees get—bonus plans, stock, whatever," says Prof. Smith. "Employees need to be motivated to change their behavior if results are going to improve." No bonus or stock plan at your company? Don't despair:

employees still have an interest in the financial success of their company, if only to boost job security and chances for advancement. But the connection needs to be made explicit.

**Include everybody.** Guidant plans to include all 6,000 employees, even translating course materials into Spanish for its facility in Puerto Rico. Don't exempt people just because they have a college degree. "Software designers, for instance, can be technically awesome but not have business skills," says Chuck Kremer, a senior consultant with EDI. "That makes them dangerous, because they don't know what they don't know. So some of their work ends up being counterproductive." ■

## If you want to learn more...

### Seminars

Educational Discoveries Inc.,  
5777 Central Ave., Ste. 100, Boulder, CO  
80301, Tel: 800-530-8326 or 303-786-8100

Hewitt Associates LLC, 100 Half Day Rd.,  
Lincolnshire, IL 60069, Tel: 847-295-5000,  
Web site: [www.hewitt.com](http://www.hewitt.com)

### Games

The Business Center, 531 Hickory  
Woods Rd., Knoxville, TN 37922,  
Tel: 423-675-2275,  
Web site: [www.bizcenter.com](http://www.bizcenter.com)  
Producers of *Biz Wiz*.

Schuster Kane/Capital Connections,  
801 W. 47th St., Ste. 401, Kansas City,  
MO 64112, Tel: 800-883-4263,  
Web site: [www.capital-connections.com](http://www.capital-connections.com)  
Producers of *Profit & Cash*.

Enterprise Profit Ability, P.O. Box 104,  
Henley-on-Thames, RG9 5YZ, United  
Kingdom, Tel: 44-1491-628-827;  
in North America, 800-537-6256,  
Web site: [www.profitability.com](http://www.profitability.com)  
Producers of *Enterprise Profit Ability*.

Paradigm Learning, 2701 N. Rocky Point  
Drive, Ste. 400, Tampa, FL 33607,  
Tel: 813-287-9330,  
Web site: [www.paradigmlearning.com](http://www.paradigmlearning.com)  
Producers of *Zodiak: The Game of  
Business Finance & Strategy* and other  
business-simulation games.

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## Test Your Financial IQ

Seminars and games teach employees to answer questions like these:

### True or false?

1. A company's cash flow shows up on the income statement.
2. Return on assets for the year is profit divided by year-end assets.
3. Accounts receivable are counted as an asset on the balance sheet.
4. A "\$100 million company" makes yearly profits of about \$100 million.
5. The balance sheet doesn't show how much money the company made last year.
6. COGS, or cost of goods sold, always includes a portion of executive salaries.
7. If a company buys a new machine for \$100,000 on December 31, its profits for the year will be reduced by \$100,000.

### Answers

1. False. Cash flow appears only on the cash-flow statement.
2. False. ROA is net profit divided by average assets—that is, beginning assets plus ending assets divided by two.
3. True.
4. False. The expression refers to a company with sales of roughly \$100 million.
5. True. Net profit appears only on the income statement.
6. False. COGS includes only those costs directly related to the production of goods and services.
7. False. Capital equipment such as machinery is depreciated over its useful life, and profit for the year is reduced only by that year's depreciation charge.

# Need to Brush Up Your Own Financial Skills?

**M**AYBE YOU know the situation all too well. You've recently been promoted. Or maybe your job has just been redefined. Whatever the reason, you're suddenly expected to review and comment on the monthly financials—and the last finance course you took was back when Ronald Reagan was in the White House and voodoo economics was all the rage. What's an embarrassed manager to do?

For starters, realize that you're not alone. More and more companies these days are expecting nonfinancial managers to understand the basics of finance, and HR and training coordinators have a variety of resources at their disposal. Some companies, such as Baltimore Gas & Electric, have regular in-house training programs. Others hire outsiders to teach advanced-level seminars. Westinghouse Electric Co.'s Commercial Nuclear Fuel Division, for example, encourages all its managers and many other employees to attend a two-day customized seminar from Educational Discoveries Inc., which teaches nonfinancial people how to apply financial concepts. "We've targeted a broad audience for this course," says controller Jim McCully.

So the first step is to talk to your HR or training department—or just ask for help from your own finance people. But if in-house resources fail you, there are plenty of seminars and courses you can attend on your own, not to mention books, tapes, and a smattering of Internet-based courses. A sampling:

## Classes and seminars

Check the closest business colleges and business graduate schools and ask about short-term or night programs. Every few months, for example, Stanford Alumni Association sponsors intensive three-day financial seminars for nonfinancial managers. The seminars—held at Stanford's campus near San Francisco—are open to all qualified applicants, not just Stanford grads, and cost \$2,400 (Tel: 650-725-0691, Web site: <http://sunsite.stanford.org/solar/saa/ExecEd/fs.html>). The

University of Virginia's Darden Graduate School of Business Administration sponsors a six-day course costing \$4,600 (Tel: 804-924-3000, Web site: [www.darden.virginia.edu/execed/](http://www.darden.virginia.edu/execed/)). In addition, the American Management Association offers a variety of seminars, including *Fundamentals of Finance and Accounting for Nonfinancial Executives* and *Intermediate Finance and Accounting for Nonfinancial Managers*. AMA training centers are located in Atlanta, Chicago, New York City, San Francisco, Washington, D.C., and Toronto; the organization also offers one- or two-day seminars throughout the year at hundreds of different locations (Tel: 800-262-9699 or 518-891-1500, Web site: [www.amanet.org](http://www.amanet.org)). In all these cases, look into your employer's policies regarding continuing management education; the company may be willing to pick up the tab.

## Books, tapes, etc.

There are, of course, any number. But some stand out, at least in the minds of the experts consulted by *HMU*. Among the best:

*Accounting and Financial Fundamentals for Nonfinancial Executives* by Robert Rachlin and Allen Sweeny (1996, AMA-COM, 256 pp., \$19.95, Tel: 800-262-9699 or 518-891-1500, Web site: [www.amanet.org](http://www.amanet.org)). Can be rough going; still, a good comprehensive tool to reintroduce financial concepts and basic accounting principles.

*Basic Financial Management* by David F. Scott, Jr., John D. Martin, J. William Petty, and Arthur J. Keown (1998, Prentice-Hall, 872 pp., \$82.67, available through bookstores, including on-line stores such as [www.amazon.com](http://www.amazon.com)). Yes, a textbook, but one that is designed well, covers a lot of territory, and comes with its own CD-ROM to support the text and present the "big picture of financial management."

*The McGraw-Hill 36-Hour Accounting Course* by Robert L. Dixon and Harold E. Arnett (1993, McGraw-Hill, 416 pp.,

\$19.95, Tel: 800-262-4729, Web site: [www.books.mcgraw-hill.com](http://www.books.mcgraw-hill.com)). Explains the big picture as well as the basics of accounting. "Good for an executive needing to get a better grasp on these issues," says one expert.

*Schaum's Outline of Financial Management, Second Edition* by Jae K. Shim and Joel G. Siegel (1998, McGraw-Hill, 480 pp., \$14.95, Tel: 800-262-4729, Web site: [www.books.mcgraw-hill.com](http://www.books.mcgraw-hill.com)). Covers financial analysis, managing working capital, budgeting, mergers and acquisitions, and everything in between.

AMA also offers a variety of audio cassettes and CD-ROMs, including the CD-ROM "Fundamentals of Finance for Non-Finance Managers" (Tel: 800-262-9699 or 518-891-1500, Web site: [www.amanet.org](http://www.amanet.org). The CD-ROM is \$295, or \$265.50 for AMA members).

## Computer and Internet-based training

Allen Communication develops custom courseware for companies; clients include 3M, AT&T, American Express, the U.S. Air Force, and IBM. Visitors to the site can fill out a short needs-assessment questionnaire and get recommendations on implementing a computer-based training program. (Tel: 800-325-7850, Web site: [www.allencomm.com](http://www.allencomm.com)).

LIVEware5 offers live, interactive training and development courses via Internet videostreaming. Registered students log on to see the feed. Course selection includes *The Business Literacy Model: Open Book Management*, taught by John Schuster of Capital Connections, and *Organizational Finance for Managers*, taught by Dr. Carl Schweser. (Tel: 888-548-3555, Web site: [www.liveware5.com](http://www.liveware5.com)).

Unicorn Training, based in the U.K., offers *The Balancing Act*, a computer-based training program that explains the principles of finance. (Web site: [www.unitrain.com](http://www.unitrain.com)).