



Building Financial Acumen

White Paper

Anne Hach
Global Corporate College

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by Anne Hach, Global Corporate College

Introduction

Successful companies build the financial acumen of their leaders at every level. They do not rely solely on the finance department or senior leaders to understand, interpret and apply financial information. They recognize the value in developing this critical competency for leaders across every function.

Financial Performance

A firm's financial performance can be described as an accumulation of the individual efforts of its employees. Yet those who typically have the greatest impact on individual efforts, such as supervisors and front line managers, often do not fully understand the financial implications of performance, good or bad. The supervisors and front line managers are a link between the goals and strategies of the organization's leaders and the employees who implement them. Their ability to convey these goals and strategies and manage the employees' performance directly impacts the bottom line yet few receive training to develop their business acumen. All too often, this creates a situation where the managers and supervisors lack the competency to fully leverage the potential of their role.

A firm's financial performance can also be described as an accumulation of the decisions of the firm. Supervisors and front line managers directly or indirectly make decisions daily that impact the bottom line. A recent study by the Harvard Business Review and Halogen Software ([Frontline Managers: Are They Given The Tools To Succeed](#) *HBR Analytic Services*) noted that 77% of companies surveyed relied on front line managers to help them achieve their business goals but only 33% felt that these managers had the skills to make business based decisions.¹

It is not only front line managers who need to build their financial acumen skills. Another recent study of mid-level managers noted that 65% of companies surveyed felt that the lack of financial acumen of some or all of their managers was impacting performance.² Other studies have highlighted the need for a wide variety of key employees to improve their financial acumen, including project managers, IT professionals, HR professionals and sales people. At Global

¹ The report was based on a survey of 610 companies with 100 or more employees.

² Ic4p study of 394 large companies

Corporate College, we believe that improving the financial acumen of all employees can have an immediate and lasting impact on an organization's bottom line.

More Than Just Numbers

In large organizations, it is critical to develop a consistent language to talk about financial acumen and performance. There are a number of ways to describe the skills related to business and financial acumen. One common mistake is to confuse financial acumen with financial literacy. Financial literacy -the ability to understand financial concepts and use them to describe events- is an important part of financial acumen. However, financial literacy does not include skills related to applying the knowledge. Definitions for financial acumen typically include understanding and application. The U.S. Department of Labor's Career One Stop Competency Model uses the term 'Business Fundamentals' which they describe as a critical workplace competency for employees at all levels of an organization. They define the competency as **"using** information based on basic business principles, trends and economics." The Global Corporate College definition, *"the ability to analyze and interpret financial data to make appropriate business suggestions and decisions"*, recognizes that an employee's degree of financial acumen needs to be commensurate with the perspective of their role. Accordingly, middle managers should have the skills to develop department level projections and interpret financial information to make strategic recommendations while front line managers should have the skills to recognize the impact of their decisions and their team's performance on the overall bottom line.

Skills related to financial acumen can be divided into four broad categories:

	Supervisors/ Front Line Managers	Middle Managers
Understand Financial Concepts	<ul style="list-style-type: none"> • Understand the purpose and structure of key financial statements • Differentiate key financial metrics and other indicators 	<ul style="list-style-type: none"> • Understand the structure of the market/industry
Interpret Financial Data	<ul style="list-style-type: none"> • Recognize trends in performance • Measure performance using key financial indicators 	<ul style="list-style-type: none"> • Have a broad understanding of the organization's financial data and statistics • Predict the impact to performance of internal and external events
Apply Financial Data	<ul style="list-style-type: none"> • Use financial information to make decisions • Distinguish the impact of individual decisions and team performance on the overall performance of the firm 	<ul style="list-style-type: none"> • Analyzes and interprets financial data to make appropriate business suggestions and decisions • Use financial and market data to create financial projections

	<ul style="list-style-type: none"> • Accurately identify potential root causes of poor performance 	
Communicate Financial Data	<ul style="list-style-type: none"> • Accurately use financial terms to describe impact of events and decisions 	<ul style="list-style-type: none"> • Able to clearly share team financial data, statistics and reports to relate to organizational situations to key decision makers

The impact of the four skill types is incremental; before applying financial data one must be able to interpret it and before being able to interpret it one must understand the underlying principles. The potential impact can be significant once managers and supervisors develop and consistently apply the skills.

A solid financial acumen program should focus on developing all 4 of the core skills. Learning objectives may include:

- Understand foundational financial concepts and terms
- Understand the connection between operations and financial performance
- Recognize personal role in the financial performance of the organization
- Incorporate financial impact into decision making process
- Predict financial outcomes given specific inputs

At Global Corporate College, we believe that it is important to customize the information to the specific financial reports and scenarios of the organization. Presenting information that is as close to real world as possible improves the learning outcomes and promotes application.

COMPONENTS	
The Language Of Finance	Supports: <ul style="list-style-type: none"> - <i>Understanding foundational financial concepts and terms</i> - <i>Predicting financial outcomes given specific inputs</i>
Key Financial Concepts	Understand how sales and costs translate into financial performance <ul style="list-style-type: none"> • Break Even • Sales • Cost behavior • Profit
Key Financial Terms	Connect basic financial terminology to organization specific reports
Why Finance Matters	Supports: <ul style="list-style-type: none"> - <i>Understanding the connection between operations and financial performance</i>

	<i>- Incorporating financial impact into decision making process</i>
Performance Factors	Reviewing the organization specific performance drivers provides a context for the learning and helps build a connection between activities and results.
Improving Performance	Supports: <i>- Recognizing personal role in the financial performance of the organization</i>
My Role	Financial performance is an accumulation of individual effort.
Best Practices	To ensure that the training program is both interesting and valuable, it is important that there is an opportunity for participants to share best practices as well as learn new techniques to improve performance.

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Global Corporate College, 6001 Cochran Rd., Suite 305, Solon, OH 44139
(440.793.0202) www.globalcorporatecollege.com

Author(s): Anne Hach, Global Corporate College

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