

## PREFACE

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### **WHAT IS FINANCIAL INTELLIGENCE?**

We have worked with thousands of employees, managers, and leaders in American companies, teaching them about the financial side of business. Our philosophy is that everyone in a company does better when they understand how financial success is measured and how they have an impact on the company's performance. Our term for that understanding is *financial intelligence*. Greater financial intelligence, we've learned, helps people feel more involved and committed. They understand better what they are a part of, what the organization is trying to achieve, and how they affect results. Trust increases, turnover decreases, and financial results improve.

We came to this philosophy by different routes. Karen took the academic path. Her PhD dissertation focused on the question of whether information sharing and financial understanding on the part of employees and managers positively affects a company's financial performance. (It does.) Karen went on to become a financial trainer and started an organization, the Business Literacy Institute, devoted to helping others learn about finance. Joe earned an MBA in finance, but most of his experience with financial training in organizations has been on the practical side. After stints at Ford Motor Company

and several small companies he joined a start-up business, Setpoint Systems and Setpoint Inc., which manufactures roller coasters and factory-automation equipment. As chief financial officer (CFO) of Setpoint, he learned firsthand the importance of training engineers and other employees in how the business worked. In 2003 Joe joined Karen as co-owner of the Business Literacy Institute and since then has worked with dozens of companies as a financial trainer.

What do we mean by financial intelligence? It isn't some innate ability that you either have or don't have. Granted, some people are better at numbers than others, and a few legendary folks seem to have an intuitive grasp of finance that eludes the rest of us. But that's not what we're talking about here. For most businesspeople—ourselves included—financial intelligence is no more than a set of skills that must be, and can be, learned. People who work in finance learn these skills early on, and for the rest of their careers are able to talk with one another in a specialized language that can sound like Greek to the uninitiated. Most senior executives (not all) either come out of finance or pick up the skills during their rise to the top, just because it's tough to run a business unless you know what the financial folks are saying. Managers who don't work in finance, however, too often have been out of luck. They never picked up the skills, and so in some ways they've been relegated to the sidelines.

Fundamentally, financial intelligence boils down to four distinct skill sets, and when you finish the book, you should be competent in all of them. They are:

- *Understanding the foundation.* Managers who are financially intelligent understand the basics of financial measurement. They can read an income statement, a balance sheet, and a cash flow statement. They know the difference between profit and cash. They understand why the balance sheet balances. The numbers neither scare nor mystify them.
- *Understanding the art.* Finance and accounting are an art as well as a science. The two disciplines must try to quantify what can't

always be quantified, and so must rely on rules, estimates, and assumptions. Financially intelligent managers are able to identify where the artful aspects of finance have been applied to the numbers, and they know how applying them differently might lead to different conclusions. They thus are prepared, when appropriate, to question and challenge the numbers.

- *Understanding analysis.* Once you have the foundation and an appreciation of the art of finance, you can use the information to analyze the numbers in greater depth. Financially intelligent managers don't shrink from ratios, return on investment (ROI) analysis, and the like. They use these analyses to inform their decisions, and they make better decisions for doing so.
- *Understanding the big picture.* Finally, although we teach finance, and although we think that everyone should understand the numbers side of business, we are equally firm in our belief that numbers can't and don't tell the whole story. A business's financial results must always be understood in context—that is, within the framework of the big picture. Factors such as the economy, the competitive environment, regulations, changing customer needs and expectations, and new technologies all affect how numbers are interpreted and what decisions should be made.

But financial intelligence doesn't stop with book learning. Like most disciplines and skill sets, it must not only be learned, it must also be practiced and applied. On the practical side, we hope and expect the book will prepare you to take actions such as the following:

- *Speak the language.* Finance is the language of business. Whether you like it or not, the one thing every organization has in common is numbers and how those numbers are tabulated, analyzed, and reported. You need to *use* the language to be taken seriously and to communicate effectively. As with any new language, you can't expect to speak it fluently at first. Never mind—jump in and try something. You'll gain confidence as you go.

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- *Ask questions.* We want you to look at financial reports and analysis with a questioning eye. It's not that we think anything is necessarily wrong with the numbers you see. We merely believe it is tremendously important to understand the what, why, and how of the numbers you are using to make decisions. Since every company is different, sometimes the only way to figure out all those parameters is to ask questions.
- *Use the information.* After reading this book, you should know a lot. So use it! Use it to improve cash flow. Use it to analyze the next big project. Use it to assess your company's results. Your job will be more fun, and your impact on the company's performance will be greater. From our vantage point, we love to see employees, managers, and leaders who can see the link between financial results and their job. Suddenly they seem to know both what they are doing and why they are doing it.

So this book, we hope, will support the development of your financial intelligence. We hope it will enable you to achieve greater success, both personally and professionally. We hope it helps your company be more successful as well. But most of all, we think, after reading this book, you'll be just a bit more motivated, a bit more interested, and a bit more excited to understand a whole new aspect of business.