

## FINANCIAL INTELLIGENCE

# A Manager's Guide to Knowing What the Numbers Really Mean

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The Web site for this book is at www.financialintelligencebook.com.

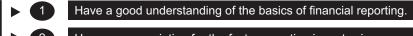
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#### **MAIN IDEA**

Financial intelligence is a set of skills and attitudes about finance which can and should be acquired by everyone in business. In its most basic form, to be financially intelligent you need to be competent in four different skill sets:

The four key skill sets of financial intelligence



Have an appreciation for the fact accounting is part science, part art.

Know and understand your ratios and you'll make better financial decisions.

Understand the bigger picture and don't think numbers tell the whole story.

While the people who work exclusively in finance tend to learn these skills early on in their careers, anyone who plans on being in a position to rise to the top of any organization need to be at least financially literate. It pays to master the four skill sets of financial intelligence. To not do this, you run the risk of being permanently relegated to the sidelines.

"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."

- Karen Berman and Joe Knight

#### 1 Have a good understanding of the basics of financial reporting. ..... Pages 2 - 4

- Learn how to read an income statement
- Get better at understanding balance sheets
- ▶ Become skilled at deciphering cash flows
- Have an appreciation for the fact accounting is part science, part art.
  - Know the accounting profession's basic rules, estimates and acceptable assumptions
  - See links between assumptions and conclusions
  - Know when to question and challenge the numbers
- ► 3 Know and understand your ratios and you'll make better financial decisions. Pages 6 7
  - Know your financial ratios to be good at analysis
  - ▶ Be very good at calculating return-on-investment
  - Start managing your balance sheet
- Understand the bigger picture and don't think numbers tell the whole story. ...... Page 8
  - Understand and appreciate your firm's financial results taking into account:
    - The state of the economy as a whole
    - The competitive environment you operate within
    - Evolving customer needs and expectations
    - The arrival of new technologies

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