

Financial literacy 101

Understanding financial basics of the business world can help employees thrive in tough times

Many Canadian organizations are starting to feel the financial strain caused by the economic downturn in the United States. As such, finance, budgeting, and cost control are taking prominent positions in many organizations.

An understanding of finance is important and helpful for most corporate jobs, even for those individuals who feel they are distant from financial roles. Companies may hire people for a primary reason such as marketing or technology skills, but the organization's ultimate objective is to be profitable. From HR professionals to legal executives, understanding the factors that help the organization achieve its financial objectives is useful in advancing one's career.

The problem is that most individuals outside of the finance department do their very best to avoid finance and budgeting. Many individuals find financial terminology complicated and don't understand how to communicate with their financial colleagues.

The good news is that things are actually a lot less complicated than they seem. All it takes to become financially literate is to understand a few basic fundamentals.

What should you learn?

Financial terms and acronyms: You can't understand finance if you don't understand some of the key financial terminology. Finance is especially confusing to non-financial professionals because many terms are used interchangeably. A "P&L" (or profit and loss statement) is the same thing as an income statement. "Liability" is another word for "debt." The best thing to do if you don't understand a financial term is to look it up on reliable websites such as www.investopedia.com. If it's not there then it's probably a company-specific term, which means that it shouldn't be embarrassing to ask what it means.



■ GUEST COMMENTARY

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Reading financial reports and statements

Financial statements are an organization's performance "report card." They highlight how profitable the company is and where it is earning revenues or incurring costs. They also illustrate the financial position of an organization. Reports exist for all levels of an organization, from individual departments to business units to the company as a whole.

Once employees understand how to read the organization's financial statements, they will be able to converse more fluently with senior executives. If they know how senior management is looking at the numbers, they'll be in a better position to achieve the results the organization is looking for.

Cost allocations

In many companies, individual departments are often charged a portion of general operating costs for the company. These "overhead" costs can include anything from utility bills and property taxes to the president's salary. The costs are generally assigned to departments based on some logical assumptions. Property taxes might be prorated to a department based on the

amount of square footage it takes up.

Many business executives don't necessarily understand all the charges assigned to their areas or the assumptions behind them. In addition, these assumptions may or may not be accurate.

By understanding the assumptions underlying the charges, executives can question the amounts being charged to their area.

Business cases

A business case is simply a request for money. Most organizations ask employees to put together a formal business case, ranging from a few pages to more than 100 pages, to request funds. The company then evaluates all the requests to determine in which projects it should invest. Generally, if an employee can prove their project is beneficial to the financial success of the company, there is a greater likelihood the project will be accepted.

Budgeting

Department managers must often stick to a budget. If they do their work well but spend more than they are entitled to, then they won't be regarded favourably.

Most senior executives have a portion of their compensation tied to financial performance. If an employee can do something to contribute to the bonus for his boss, then the chances of his career moving forward are enhanced. Understanding financials is the first step to get him there.

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