

# How well do you know business? Test your knowledge.

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For years, American manufacturing and service economy workers have been painfully aware of global competition for their jobs. It may be difficult for these workers to accept, but business owners realize that even in the world's most sophisticated economy; it makes economic sense to outsource commoditized products that use repetitive processes to developing countries.

The silver lining is that this seismic shift toward outsourcing offers a global opportunity for a new kind of relationship between management and work force, one that requires greater transparency, trust and communication.

Where the Old World management-worker relationship was almost parent-child, the new one more closely resembles an adult-adult partnership.

Your company can begin building this new kind of partnership by helping managers and employees develop their business and financial acumen -- capabilities that are valued but not easily transmitted or measured.

Business and financial acumen are slightly different. If you want to know whether your people have business acumen, see if they can answer the following questions:

- (1) What is our company's niche (the unique thing that we do well that makes us money)?
- (2) How do we leverage ourselves in the marketplace (get greater results with less effort and resources)?
- (3) What is our company's go-to-market strategy (our unique way of generating new business)?
- (4) What is our business case (what makes us different and what value do we bring that makes a customer want to buy from us)?

You might be surprised at how few people in your company can answer these questions. If that's the case, it suggests your employees don't understand your strategic objectives. Obviously, that makes it difficult for them to partner with you in accomplishing your goals.

The management-worker partnership needed in the new world economy requires a higher degree of business acumen from top to bottom. Without this, you risk underutilizing the creative and innovative potential of your No. 1 asset -- your work force.

You can start to correct this problem by answering those four questions for yourself, and then talking with your managers and employees about them. Ask for their ideas about how to improve on any of the four areas. Be patient, because most employees never have been asked to contribute in this way.

While business acumen is strategic, financial acumen is more specific. It addresses the following questions:

- How do we make money?
- What tools and measures tell us how we're doing?
- What measures do we need to improve?
- What do we have to do to improve them?

How does your company measure up in the financial acumen department? You can find out by asking your people to take this simple test. You can find the answers at the end of this article:

(1) Pre-payment to a marketing company to develop advertising for a product line will be recorded on what two financial statements immediately?

a. Income statement and cash statement; b. Balance sheet and income statement; c. Balance sheet and cash statement.

(2) Which of the following is most important to daily operations of a business?

a. Earnings; b. Cash; c. Equity; d. Sales.

(3) Advances from customers (deposits) are payments from customers for future services, which means we cannot yet recognize them as:

a. Cash flow; b. Assets; c. Liability; d. Revenue.

(4) When a customer sends payment for an invoice, what balance sheet account will be reduced?

a. Advances from customers; b. Accounts payable; c. Accounts receivable; d. Inventory.

(5) Inventory becomes part of cost of sales when it's:

a. Purchased; b. Paid for; c. Assembled; d. Delivered.

(6) Equity on the balance sheet represents:

a. Claims by lenders; b. Claims by vendors; c. Claims by employees; d. Claims by stockholders.

(7) Gross profit is:

a. The difference between revenue and cost of sales; b. The amount of profit after subtracting SG&A expenses; c. Ugly, because our company is suffering a loss; d. The sum of SG&A and cost of sales.

(8) Assets = liabilities plus owners' equity represents:

a. The basic structure of the income statement; b. The basic structure of the cash statement; c. The basic structure of the balance sheet; d. None of the above.

(9) Which of the following statements explains the difference between profit and cash?

a. There is no difference. They both mean we are making money; b. Cash tells us how much money is in our bank account and profit tells us how much revenue has exceeded costs during a specific period of time; c. Cash tells us how much money we made and profits tell us if the money we've made is liquid or not; d. Profits tell us how much money is in our bank account and cash tells us how much revenue has exceeded costs during a specific period of time.

(10) If someone asks you to better manage accounts receivable and inventory, the objective is to improve:

a. Profits; b. Equity; c. Cost of sales; d. Cash flow.

If the test scores aren't great, you might want to consider some formal training for managers and employees. At a minimum, see if you can define and teach employees the key performance indicators for their area of the company. Then reward them for improvements.

Answers: 1.c; 2.b; 3.d; 4.c; 5.d; 6.d; 7.a; 8.c; 9.b; 10.d.

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