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**CUSTOMER
ACUMEN**

**INSIGHTS TO BUILD
CLIENTS FOR LIFE**



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Dear Reader,

Finance, the lifeline of any business, depends on the financial acumen of the business leader. In the world of uncertainty and complexity, every decision made by a business leader has financial implications, especially as performance is measured and rewarded based on financial metrics. Understanding financial numbers becomes even more crucial when it comes to delivering the greatest value to stakeholders.

Customer Acumen, this quarter takes a look at '**The Need for Financial Acumen for Business Success**'. **Jay** shares some nuggets of knowledge and the consequences of the lack of financial acumen in a business leader. **Dr Anil Lamba, Director - Lamcon Finance and Management Services**, speaks about the fear of numbers and how managers can 'romance the balance sheet'.

Prasad reviews **David Epstein's 'Range'**, which explains the benefits of taking our time and learning by doing, questioning popular wisdom that drives home the importance of a head start and specializing early. In-house Cartoonist, **Vikram Nandwani's** toon's understanding of financial numbers!

We hope you enjoy reading this issue and look forward to your feedback and comments on how we can serve you better.





MUSINGS



Financial Acumen for Business Success

- Jay

While lack of capital is a major factor for business failure, what is often not realized is that a more serious cause of business collapse is lack of financial acumen in a business leader.

While large companies often have well-structured finance and accounting departments who operate by well-established financial processes, in the case of a small enterprise, the absence of financial acumen in the Founder can be a fatal flaw that will sooner than later trigger ischemia in the business artery of the company. The reason is simple: the entrepreneur's dreams override financial reality of the firm. Fueled by ambition and heady with notions of success, the entrepreneur by definition has an inveterate tendency to cast aside shadows of doubt and negativity that normal individuals possess. Risk is a constant companion in an entrepreneur's life journey, and he embraces it without much ado. After all, if his personal outlook was marred by pessimism, he wouldn't be in business. The qualms that others face is par for the course in his life - and walking the razor's edge becomes second nature for him.

The real question is: why does the entrepreneur end up in this state when it need not have been so? Contrary to the common notion that businessmen are driven by greed, there are other factors in play that drive them. While money is an important score card for many of them, a major element is their ambition for scale and growth. Their personal success in a venture fuels further dreams of greater wins and unfortunately, the economics of the business are given the go-by. If not corrected soon, the entire edifice built at a time when they could personally control the variables, spirals out of their grasp, and the establishment crashes

into a hard landing, often at immense personal and organizational cost. The ultimate reason is negligence of financial principles, and an over-assessment based on unrealistic assumptions.

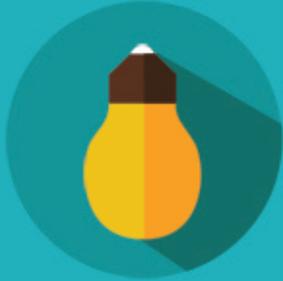
While numbers do not lie, the interpretation that one makes from the data is colored both by one's mindset and knowledge. It is not surprising to meet managers and businessmen who acknowledge that 'I am not a finance man' or 'I don't like numbers'. It is not my case that you need to know all the intricacies of accounting or of financial management. However, side-stepping financial matters while running a business or participating in organizational decision-making reveals incompetence or even gross negligence. If you cannot take the effort of understanding the key parameters that impact your business or organization, then you have no claim to be a business owner or a business manager.

Can financial acumen be acquired? Once you accept that you need to learn the ropes of how a business is run, then you can begin the process of learning the fundamentals that matter to your firm. While expertise from specialists should be liberally drawn, having a good financial mentor to guide you on the metrics that matter is invaluable. Knowing financial language is a good starting point but being alive to the pitfalls that cripple a firm is vital for preventing derailment of the business.

Going beyond individual learning is the recognition of the need for financial literacy of all members of the firm. A workforce that does not understand the basic principles of how your firm makes (or loses) money is like cattle that needs to be herded constantly to do the right thing. Contrast this with a firm that has employees who know how the firm competes in the market place and has basic knowledge of the economics of the business, and you have an empowered team which is focused on winning customers and plugging the inevitable revenue leaks in the system that spring up over time.

While the pursuit of money alone is not what gives meaning and soul to a firm, not adhering to fundamental principles on how money is to be garnered and secured is tantamount to dereliction of duty by the firm's stewards.

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SPOTLIGHT



Dr Anil Lamba

Director
Lamcon Finance & Management Services



Bestselling author, financial literacy activist and an international corporate trainer, Dr Anil Lamba is a practicing Chartered Accountant and holds degrees in Commerce, Law and a Doctorate in Taxation.

With over two decades of experience in training and consulting in finance, Dr Lamba's training programmes are held internationally with a client list exceeding 2,000 large and medium-sized corporations spread across several countries including India, USA, and in Europe, Russia, Africa, the Middle East and the Far-East. He has conceptualized, and is actively engaged in the implementation of:

- i) 'Financially Intelligent Organization', a certification awarded by Lamcon to corporations for management accounting processes and financial acumen, and,***
- ii) 'Financial Literacy for All', a movement towards creating a financially intelligent India. This is a social responsibility project with the aim of spreading financial literacy among a billion Indians.***

Dr Anil Lamba has created and developed two series of training videos, 'Figure Out the World of Figures' and 'Anil Lamba on Finance' and has done pioneering work in distance education and e-learning. He has also written several books and over 1,500 articles. His books, 'Romancing the Balance Sheet', 'Flirting with Stocks', 'Eye on the Bottom Line' and 'Financial Affairs of the Common Man' are currently making waves.

CA: It has been often seen that entrepreneurs fail due to financial mismanagement. In your opinion what is the role of financial acumen in business success? And, how can this be learnt?

AL: Financial acumen plays a key role in the success of any business organization. It is an undisputed fact that lack of financial acumen and the resultant financial mismanagement is the single biggest cause of business failures worldwide.

Which is a pity.

If a business fails because its product was faulty or the service provided by it was deficient, one can understand it. If it failed because it did not change with the times, did not embrace new technology and could not withstand competition from newer players using the latest techniques, one can understand it. If a business fails due to circumstances beyond one's control, it is understandable. But failing due to financial mismanagement is not.

Then why does it happen?

It happens because of a mistaken notion on the part of business owners and managers that finance management is happening in the finance department; that finance management is the sole prerogative of the people in the finance department.

What is critical to appreciate is that while production is the responsibility of people working in the production department, human resource management is the responsibility of those in the HR department, sales is the responsibility of people in the sales department, finance management is everybody's responsibility.

In fact, much of what happens in the finance department is accounting related. Finance management or mismanagement is happening in the action of each individual within the organization.

Every production decision, every sales decision, every decision taken by persons in the HR or marketing or procurement departments has a financial implication. Unless each of these actions are financially intelligent, the organization's finance management cannot be at its optimum.

What this also tells you is that despite having the finest possible finance department filled with brilliant finance professionals, it is possible for an organization to suffer from bad finance management, unless everybody understands that finance management is their responsibility and unless steps are taken by the organization to equip all individuals to take financially intelligent decisions.

CA: The 'fear of numbers' makes many managers apprehensive and they are unable to 'romance the balance sheet' (as you put it). How can one reduce or remove the fear of financial concepts which are so important for a manager's growth in business hierarchy?

AL: Most so called non-finance persons suffer from two delusions: 1. Finance management as a subject is very difficult and 2. it is very boring. It is these delusions that make people apprehensive and deprives them of the ability to romance numbers.

The truth is that finance is actually a common sense subject. It is definitely not rocket science.

And it is perhaps one of the most fascinating subjects that one can come across. Whenever someone say, "finance must be boring," my reaction is, "This subject deals with money. How can money ever be boring?"

The only answer to allay these fears lies in spreading financial literacy.

If through education the fear about numbers is removed and people develop a love and appreciation for the subject it would help the individual, the corporation and the nation.

CA: As someone who has guided and taught businessmen and managers for decades, please share what are the key financial concepts that every businessman or manager must know when piloting an enterprise?

AL: To get a comprehensive answer to this question, you will have to read not one but two of my books. So, in one paragraph I can share perhaps one out of tens and hundreds of financial principles that a business owner/manager needs to follow while, as you put it, piloting an enterprise.

Never to use short-term funds to acquire long-term assets.

This is perhaps amongst the most critical of all financial dictums, the violation of which has been responsible for the downfall of many business enterprises.

I usually urge business persons to engrave this on a stone and display it prominently in their cabins.

If there was a graveyard of failed businesses, the tombstone in front of many would have read, "Here lies a company that used short-term funds for long-term purposes".

CA: What is your advice to a young entrepreneur or manager who is beginning his business or career journey in a company?

AL: My advice to young entrepreneurs working on their exciting ideas and just about starting-up would be to pay heed to finance management from the beginning. In addition to technical qualifications, to also acquire financial literacy at a very early stage. Often by the time such persons realise its importance, it is too late.

Also, to prepare a comprehensive business plan before embarking on a project and know when it is expected to break-even and start making a profit and to ensure they have the financial resources to last till the happens.

Entrepreneurs should never forget that business is not about generating top lines, but it is run to generate bottom lines (notwithstanding the impression created by studying the models followed by the Googles and Amazons and Flipkarts of the world).

And remember that profit and cash are not the same. It is as possible to make handsome profit and not have cash as it is to be sitting on piles of cash and not making profit (which is probably why you are not making a profit). And therefore, in addition to generating profit, focus also on cash flow management.

CA: Please share with us more about your company Lamcon Finance and Management Services.

AL: Lamcon, as the name suggests, provides finance management related services, chiefly aimed towards creating financially intelligent organizations. We help individuals and organizations acquire 'Financial Intelligence for Profitable Growth' (our tagline).

While consulting services are provided selectively, much of our focus remains on corporate education. Our client-list exceeds 2,000 corporations spread across India, USA, Europe, Russia, Africa, the Middle east and the Far-east.

The company philosophy is that if anyone, anywhere in the world, from any industry, wishes to learn finance, we should be able to provide a customised solution that meets their requirement and budget.

Our training programs are delivered through:

- Face-to-face sessions in a live program
- On-line sessions, both live and pre-recorded
- E-learning programs
- Videos
- Books

We are also working on a very audacious social responsibility project called 'Financial Literacy for All' which is an attempt to provide financial literacy to a billion Indians free of cost.

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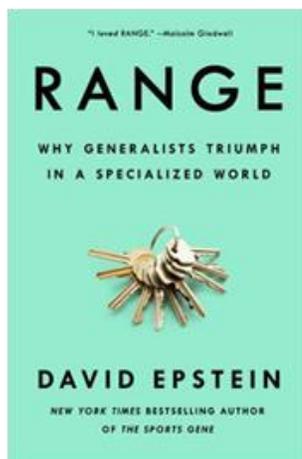
RESOURCES



Range

- David Epstein

Reviewed By Prasad Deshpande



David Epstein, who made a mark with his first book 'The Sports Gene' has written another remarkable book. 'Range' explores in depth a number of assumptions on what it takes to succeed and reach the very top in a profession or vocation that many of us, especially parents, seem to take for granted.

For example, popular wisdom which is rarely questioned, is the importance of a head start and specializing early. It was a no brainer for your child to start as early as possible specializing in something, to be an epic success. This was popularized by the astounding success of Tiger Woods, Amy Chua's book on Chinese Parenting 'Battle Hymn of the Tiger Mom', Bobby Fischer and the Hungarian Polgar sisters in chess.

This is far from the truth. According to Epstein, many of the most effective people in elite professional fields (such as sports, art, and scientific research) succeed because they find their way after pursuing other endeavors first. There is a value in being a generalist rather than a specialist.

In fact, the question that he set out to explore in this book was 'how to capture and cultivate the breadth, diverse experience and interdisciplinary exploration within systems that increasingly demand hyper specialization and would have you decide what you should be before first figuring out who you are'.

This question is at the heart of the book.

Epstein opens the book with a delightful contrast between two of the greatest sports legends of our time, Federer and Tiger Woods.

Federer played several sports as a child and an adolescent. His parents encouraged him only in the direction of good sportsmanship, and when he began to gravitate toward tennis, they cautioned him against taking the sport too seriously. Years later, Epstein notes, Federer would credit the hours he spent dabbling in basketball, handball, skiing, wrestling, swimming, table tennis, and skateboarding with helping him develop his hand-eye coordination and his famously well-rounded athleticism. According to Epstein, there is a 'sampling period' which allows kids to discover naturally what they love doing and most want to succeed.

A more extreme case of this pattern is Vincent van Gogh, who drifted from one calling to another - pastor, teacher, bookseller - before, just a few years prior to his death at the age of 37, finally discovering his true passion in art.

Tiger Woods on the other hand, spent an all-consuming childhood right from the age of two, focusing only on golf under his father's watchful eye.

Epstein then explains why success through early specialization in golf, chess, music is not translatable to other fields as they are what he terms as 'kind learning environments'. Based on the work of Hogarth (2001), in 'kind learning environments', feedback links outcomes directly to the appropriate actions or judgments and is both accurate and plentiful. In these environments, patterns repeat, and repetition causes learning.

In contrast in 'wicked learning environments' feedback in the form of outcomes of actions or observations is poor, misleading, or even missing. Patterns may or may not repeat and they may not be obvious and therefore repetition does not always lead to learning.

Most of us have to learn, grow and succeed in 'wicked learning environments'.

In which case, quitting at times makes sense. Epstein points to research that has shown that quitting something that's unrewarding or unfulfilling and moving on to something that's a better fit makes people happier. So, quitting once it's clear that the "match quality" (the degree of fit between who you are and what you do) between the person and the pursuit is bad, Epstein said, should be seen as more of a success than a failure.

So, Epstein gives us two possible reasons for thinking that the generalist might have an edge over the specialist: Generalists are better at navigating "wicked" learning environment and generalists end up with better "match quality".

The book is full of great stories of how some of the historical greats and achievers from our time got to where they are. Kepler's use of analogies and free range thinking to solve some of the perplexing challenges in astronomy such as explaining Mars' perplexing orbit from first principles. The famous 17th century figlie del coro choir in Venice consisting almost entirely of women who were orphans and who could learn new music quickly on staggering array of instruments, Nintendo's success using lateral thinking and 'withered technology' and Michael Crichton who started with medicine and later turned to writing.

But more importantly, the message that Epstein would like to leave us with is 'don't feel left behind'. He narrates a story of two Roman historians. These historians recorded that when Julius Caesar was a young man, he saw a statue of Alexander the Great in Spain and broke down in tears. He is supposed to have said "Alexander at my age had conquered so many nations and I have all this time done nothing that is memorable". Pretty soon that concern was a distant memory as Caesar took charge of the Roman Republic.

According to Epstein "Compare yourself to yourself yesterday and not younger people who are not you". You probably don't even know where you are exactly going, so feeling left behind doesn't help. For the proactive pursuit of match quality, start planning experiments while keeping in mind, there is nothing inherently wrong with specialization.

We all specialize in one degree or another. But recognizing that the key to staying relevant and being able to contribute, is about cultivating range while pushing to specialize.

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FEEDBACK

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