Financial Management for Business

Financial Management for Business: Cracking the Hidden Code represents a breakthrough approach to business education. Set against the gripping story of Luca Pacioli’s research into the ‘Hidden Code’ of book-keeping that transformed medieval business and remains at the heart of every modern enterprise, the book presents an innovative step-by-step model that will transform your understanding of financial management. Key concepts such as profit and loss, cash flow and balance sheets are brought to life with internet-based simulations that show how cash actually flows around the business. The book also helps to explain how decisions such as pricing and advertising affect the bottom line and why financial disasters happen, such as the 2008 international banking crisis. Professionals and students will find the book an invaluable companion to CIMA’s new fast-track financial qualification for non-accountants. The book comes with a free trial of the web-based simulation models: visit www.financial-management-for-business.com for further details.

Robert Bittlestone was educated in classics and science before reading economics at the University of Cambridge. He is the founder of Metapraxis Ltd, a management consultancy specialising in the detection of early warnings for multinational companies. He is the author of many articles about the importance of visualisation and has applied these principles to the award-winning book Odysseus Unbound: The Search for Homer’s Ithaca (Cambridge University Press, 2005). He is married with four children and describes himself as an enthusiastically incompetent skier, sailor and windsurfer.

BUSINESS FLIGHT SIMULATOR WEBSITE

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CIMA, the Chartered Institute of Management Accountants, offers a business training course and a subsequent qualification based on the contents of this book. Students wishing to acquire this fast-track financial certificate should refer to www.cimaglobal.com/bfs.

Images

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“The need for an intuitive understanding of business and business jargon is greater today than ever. Financial Management for Business is an ideal way for companies to go back to basics and test their understanding in a safe environment – enabling them to act on their strengths and address their weaknesses. The accompanying and highly innovative Business Flight Simulator allows readers to teach themselves, and in taking this approach the author can truly claim to have ‘cracked the hidden code’.”

Charles Tilley, Chief Executive, CIMA (Chartered Institute of Management Accountants)

“Financial Management for Business is a memorable effort, quite unique and long overdue. It goes through financial statements at just the right pace for someone who needs to know what they show, and the anecdotes are both helpful and amusing. Most of all, I thoroughly concur with the manner in which technology is embedded in the book.”

Alan Sangster, Professor of Accounting and Finance at Middlesex University Business School and co-author of Frank Wood’s Business Accounting

“Financial Management for Business is an ideal training tool to ensure that managers understand the drivers of cash flow and value in a business. It highlights the link between actual cash flows and reported profitability, ensuring that managers understand that the former is fact and the latter often driven by opinion.”

Kenneth Lever, Chief Financial Officer, Numonyx

“I think the foundations of Financial Management for Business are very sound, and will be tremendously useful. I was very impressed with the online Business Flight Simulator – it feels like a powerful learning tool.”

Richard Pennycook, Chief Financial Officer, Morrisons plc

“Financial Management for Business presents a much more visual and intuitive way of looking at what less numerate colleagues might view as dull digits and tables, without patronising learners or over-simplifying the issues at stake.”

Gina Dyer, Deputy Editor, AccountingWEB.co.uk

“Financial Management for Business is seriously and surprisingly addictive, and great fun too. I didn’t realise I was so business competitive!”

Kevin Hull, Group Human Resources Director, Marshalls plc
“I really liked Financial Management for Business. It is a completely new way to understand business via the ‘driver-seat’ perspective. The online models were fun to use and not too complicated.”

Walter Braegger, Head of the Investment Bank Faculty, UBS Business University

“Financial Management for Business is a fantastic combination of text and on-line simulation. It will help us to improve the level and quality of our discussions and decisions. Thank you for an experience I will never forget.”

Glen Hawk, Vice President, Embedded Business Group, Micron Technology Inc.
Financial Management for Business
Cracking the Hidden Code

Robert Bittlestone
For Simon, Nicola, Matthew and Mark – Per ardua ad astra
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Introduction

Do you know how to ride a bicycle? Do you still have the manual that taught you?

I have asked many people these questions. Most answer yes to the first, but I have never heard assent to the second. I think the reason for this is obvious. We don’t learn how to ride a bicycle from a manual: we learn how to ride it intuitively. We sit on the saddle, we start to pedal, we fall off at first, but we practise some more and then almost by magic, we find that we can ride it successfully.

So we don’t need an instruction manual to teach us how to ride a bicycle: instead we just use our intuition. The aim of Financial Management for Business is therefore to provide you with an intuitive understanding of how business works and how to succeed at it. The idea is not for me to teach you: it is for you to teach yourself, and so I also call this approach Amplifying Intuition.

What about the book’s subtitle, Cracking the Hidden Code? Is this just over-enthusiastic marketing? In fact it is an exact description of the challenge faced by anyone who wants to succeed in business. There is a hidden code that links all aspects of an enterprise, whether it is a multinational corporation or a neighbourhood grocery store. This code is often presumed and sometimes neglected, but if you don’t understand it you will be forever vulnerable, which means that you may go bankrupt and destroy your business overnight.

But you don’t have to own a business in order to read this book, because it is also intended for students, managers and the public.

Students of business at the outset of their careers are nowadays presented with an impressively professional syllabus. When I started work in the 1970s, management education was almost non-existent: one simply learned on the job. However, this greater professionalism is sometimes gained at the expense of specialisation: there is a real danger that today’s business students may not see the wood for the trees. So in this book I have tried to provide a perspective that may help them to survey the whole forest from above.

Managers of companies, whether modest or multinational, know that their profession is both a science and an art. The scientific side involves aspects such as the rules of accountancy, while the artistic side includes the gut-feel of marketing. These are very different skills and they are often performed by different people, some of whom rarely talk to each other. But both of them are vital if a business is to survive and thrive and so I hope that these chapters will help to build a bridge between them.

Members of the public who are not directly involved with business are nevertheless inextricably intertwined with it, whether as consumers, investors or pension-holders. Every few years a large company goes bankrupt and those who have invested in it lose their money. Their distress at this outcome is often exacerbated by
the clear recollection that it announced record profits just a few months earlier. Almost all of us therefore share an interest in understanding why these profits are not the same as real cash in the bank, and so my third aim is simply to explain to interested members of the public how the rules of financial management operate.

You can find out more about these simulation models at www.fm-fb.com and this will also enable you to determine whether you are entitled to access them. For the benefit of those readers without such access I have included many explanatory screen-shots. These will enable you to follow the argument with your analytical rather than your intuitive capabilities – with the left half of your brain as opposed to the right.

Some readers will find it easier to benefit from these online models than others. If you were born after about 1990 then you have grown up in the internet age and you are therefore what Marc Prensky has memorably described as a ‘Digital Native’. You are used to playing video games and mastering software immediately and so you will find these simulations very simple to operate. However, if you were born rather earlier then you are a ‘Digital Immigrant’ and the experience may be somewhat more demanding. There may also exist ‘Digital Refugees’ who will find these models very hard going indeed, but then they have probably already decided not to read this book.

If you can access the simulation models then I would emphasise the benefit of doing so while you are reading these chapters. There are many books about learning to ski, but you cannot expect to excel in that ambition without also visiting the slopes. In this sense we can use the internet as if it were a ski-school or a flight simulator. It is a place where you can make mistakes without suffering the consequences.

Once you have run your own simulated company and watched it go bankrupt while you are simultaneously declaring healthy profits, you will not need anyone to explain to you how this can happen: it will have become entirely obvious to you. And however galling you may find the experience, rest assured that it is less painful to go bankrupt with simulated money than with actual funds, just as it is less painful to fall on the beginners’ slopes than on a black run, or to crash a virtual aircraft instead of a real one.

I hope this experience will also give you the confidence to see that the diagrams in this book and on the website are not simply theoretical depictions. They are instead direct representations of business reality. So if you can control them successfully, you will have every chance of succeeding in the real business world.

Kingston-upon-Thames, January 2010
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Many of the experiences in this book were acquired while working for our clients. Particularly influential in this respect were Mac Derwig (formerly Unilever), Jim Alles (formerly ICI), Robert Lerwill (Aegis and formerly WPP), John Warren (formerly W.H. Smith and McVities), Andrew Allner (formerly RHM, Dalgety and Guinness), Ken Hanna (Inchcape and formerly Cadbury Schweppes), David Barker (WPP) and David Davies (OMV and formerly Morgan Crucible). I would also like to highlight the contribution of Ken Lever (Numonyx and formerly Tomkins) who has given generously of his time and experience in guiding me through some of these financial minefields.

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Another major influence has been the continuing discussion with my colleagues at Metapraxis on how best to tackle these issues in the real business world. This resulted in the production of a software resource called Resolve in the 1990s followed by Empower in the 2000s and as we enter this new decade, the Business Flight Simulator. These tools represent a business stethoscope in our clients’ and consultants’ kitbags and you can find out more about them at www.metapraxis.com.

Many people at Metapraxis have contributed to these developments, but I would like to cite in particular Andrew Mosely, our Chief Operating Officer, and Tony Kirke, our Chief Technology Officer. Last but undeniably not least is Anne Stephenson, my long-suffering PA for nearly twenty years, who has always combined tact with tenacity.

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organisations in this new initiative, under the leadership of Charles Tilley and Robert Jelly at CIMA and David Clarke and Ian Ryder at the BCS. This has enabled an innovative and internationally recognised new professional qualification to be launched on the basis of this book’s material.

Finally, I would like to thank Paula Parish and her colleagues at Cambridge University Press, who guided the typescript into print with imagination, skill and sensitivity. Needless to say, I am wholly responsible for any infelicities that may have escaped their watchful eyes.