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MANAGEMENT CONCEPTS

FINANCIALS

LESSON 1 ~ BUILDING BUDGETS THAT AFFECT REALITY

Hi, I'm Russ Christoff with Playback Media, and welcome to our topic for today, *Building Budgets That Affect Reality*. Joining me is John Swinburn, President of Challenge Management, Inc. John has made numerous presentations on budgeting and financial management and has developed seminars on budgetary issues. Thanks for joining us today, John.

Thanks, Russ. Glad to be here.

Now, John, forgive me for asking what may be an obvious question, but how does one define reality with regard to budgets?

First and foremost, they're based on agreed objectives, that they reflect what the organization's core issues are. Secondly, they're based on credible information, information that people can depend on. And thirdly, they're achievable given the objectives of the organization and the resources that are available to the organization.

Now that we know what reality is in terms of budgeting, how does a person responsible for developing budgets get started? That is, where does one go to get information upon which to base a budget?

There are several resources that are available to a person who's developing budgets. And I'd say, first and foremost, going to the people who have the information about the history. If someone has been responsible, for example, for developing budgets, for producing budgets, has information about their resources that have been expended, the revenues that have come in, go to those people, first and foremost. They have information that's going to be valuable. It's going to be useful in creating budgets. Secondly, go to historical data if it's available. Obviously, if it's a brand-new budget, the historical data won't be available but, if it's something that you're doing that's carrying on a project from year to year or from month to month, go to information that will tell you where things have been in the past. And finally, go to credible resources. Go to vendors that might be able to tell you, for example, what the costs are going to be for your product or service. Go to customers or prospective customers. Find out what are their price points? What are they willing to pay? What are their needs? If you identify the markets, identify what your resource needs are going to be, your budgets are going to be much more likely to be reality-based.

Now with that in mind, what mechanisms can a person use to test whether a budget he or she is developing really does reflect reality?

First and foremost, a person can look to determine whether the budget reflects the organization's objectives. And there should be a clear indication between the two, between the budget and the objectives of the organization. If there isn't such a connection, then the budget doesn't reflect reality. Secondly, a person should look at whether the revenues are based on realistic projections, whether there are - is information available that suggests that the revenue projections are correct and accurate? The same thing is true of the expense projections. Are they based on information that's credible? And finally, are the people involved in the process really on board? Do they really understand the organization's objectives? Do they understand the relationship between the budget and the organization's goals? And are they in agreement that the organization's goals are fundamentally correct?

What's the main challenge to building a reality-based budget, John?

It goes back to the issue of whether the budget is, in fact, based on an organization's objectives. That's the biggest challenge, to ensure that everybody involved in the process, first off, understands what the organization's goals are. And, secondly, do they understand that there's a relationship, a direct relationship, between the budget and the organization's goals?

Well, how does one overcome this challenge?

It's simply a matter of education. It's a matter of ensuring that everybody involved in the process is made to understand what the organization is trying to achieve, what they want to accomplish. And they also need to be made to understand what exactly is the role of the budget in achieving those objectives? They need to be taught that a budget is the financial expression of an organization's plans. And if they buy into the plans, they simply then need to take the next step to build a budget that reflects those plans.

Thanks for sharing your insight, John, and for joining us today.

Thanks very much. Glad to be here.

LESSON 2 ~ UNDERSTANDING FINANCIAL STATEMENTS

Host: Welcome to Understanding Financial Statements. Strong financial abilities allow you to look at the financial health of your company, your competition and your customers, in order to make financially sound business decisions. This program will help you to recognize the purpose, structure and use of the balance sheet, income statement and cash flow statement. You'll also learn how your business decisions can enhance or detract from an organization's value in the marketplace. Watch now as Merlin conjures up a little financial magic for two hopeless employees of Falcon Industries.

Matilda: It's Todd's turn to give the quarterly report, but when it comes to financial statements, he's clueless. In other words, Todd's history.

Todd: Geez, this blows.

Suzie: What's up, Todd?

Todd: Oh, Suzie, just the person I wanted to see. You know about financial statements, right?

Suzie: Well, let me see. To be perfectly honest, these things have always been Greek to me.

Todd: Oh, darn. I'm going to look lame unless I can get with this stuff, pronto.

Suzie: Well, have you tried the Net? Maybe there's a site that can, well, you know, help.

Todd: Excellent idea.

Todd: Rude! Check this out!

Suzie: This site provides a unique interactive experience that you will be unable to exit unless you pass a quiz. Do you agree with these terms and conditions? I don't know, Todd.

Todd: No, let's go for it. Hey, it's only a Web site, right? Agree and enter. Whoa, what's up with this?

Suzie: If I didn't know better, I'd say we've been sucked onto the Web page.

Todd: Oh, cool.

Suzie: This is scaring me, Todd.

Merlin: Well, well, you're my first visitors in quite a while. Let me guess, you want to know how to read a financial statement. Not to worry, it's as easy as one, two, three.

Todd: Like, where are we, dude? And who are you?

Merlin: Why, you're in cyberspace, my posting for the new millennium. Merlin's my name and helping folks understand business is my game.

Suzie: The Merlin? Aren't you supposed to wear a funny pointy hat?

Merlin: Like this? Please, that sort of thing went out of style 500 years ago. Dress in the cyberworld is, shall we say, business casual. Now let's get to it, shall we? First, let's look at the big picture.

Todd: Gnarly magical staff, man.

Merlin: Thanks, a memento from another era. But back to yours. Your company's stock price impacts you, and every business activity you perform can impact stock price.

Todd: No way.

Merlin: Yes way. The goal of any publicly held company is to maximize shareholder value, or the market value of stocks and dividends.

Suzie: I've always wondered, what drives stock value?

Merlin: Financial analysts look for profit and cash flow, risk (that is, liquidity, leverage and cost of capital), return on equity, projected earnings growth rate and consistency of earnings growth.

Todd: Whoa, you lost me there, dude.

Merlin: The main thing to remember is that your role in financial management is to use the company's resources properly, and this requires ongoing attention. For some strange reason, smart people like yourselves seem to have a phobia about financial statements, but there's nothing mysterious about them.

Todd: I'm terrible at this.

Suzie: So am I.

Merlin: Oh, nonsense. There are three general uses for a company's financial reports. First, external accounting, that is, annual reports. The goal here is for a company to effectively use its economic resources.

Todd: Oh, all right. Got you.

Merlin: Good. Second, financial reports are prepared for tax purposes for the government.

Suzie: Right, taxes - the government.

Merlin: And finally, financial reports are used for management within the company. The goal here is efficient allocation of internal resources.

Todd: Oh, I knew that. Really.

Merlin: The three most commonly used financial statements are the income statement, the balance statement and statement of cash flows, which provide information regarding a company's business activities.

Todd: That's rad!

Merlin: First, realize that these statements deal with how much profit was generated during the accounting period, what is the accumulated wealth of the business at the end of the accounting period and what cash movements took place.

Todd: Oh, dude, you're losing me again.

Merlin: Hang in there. Actually, it's really straightforward. Even you can get it. Let's take each statement one at a time. The income statement includes all revenues and costs over the accounting period of an annual report. It is best summarized by one simple formula - revenues minus expenses equals net income.

Todd: Whoa, that's cool.

Suzie: Can you give us an example?

Merlin: Sure. Let's say your salary for last year was $100. That's revenues. But your total expenses - you know, mortgage, travel, entertainment, that Beemer and snowboard - add up to $98. That leaves you a net income of...

Suzie: Two dollars.

Merlin: Bingo!

Todd: That's pretty paltry.

Merlin: Then you'd better consider asking for a raise. The balance sheet is next. The balance sheet is a snapshot of a company's assets, liabilities and equity at a specific point in time.

Todd: Oh, wait, a snapshot?

Merlin: Yes. The balance sheet has to balance. It shows who owns the company's assets - the creditors or the owners. The basic formula is assets equals liabilities or debts plus net worth.

Todd: I really dig that staff, man. Can you show me how to use it?

Suzie: Better yet, can you give us an example of what might be on a balance sheet?

Merlin: My pleasure, Suzie. Let's say the two of you are applying for a loan. You determine your assets to be $500, but you have $400 in debt, therefore your net worth is...

Suzie: A hundred dollars?

Merlin: Precisely!

Todd: Wait. Okay, assets equals liabilities plus net worth. Hey, I get it.

Merlin: Hallelujah!

Suzie: I get it too, but I still have some questions, like, what exactly are assets and liabilities?

Merlin: Assets are resources held by a business that have the following characteristics: A probable future benefit exists, the business has the exclusive right to control the benefit, the benefit must arise from a past transaction or event and the resource must be capable of being measured in monetary terms.

Todd: Aren't there different types of assets?

Merlin: Point well taken, Master Todd. Current assets are the most liquid and can be converted easily to cash within one year - cash, securities or accounts receivable, for example. Fixed assets are items such as buildings and equipment. Long-term assets are those expected to be collected or converted to cash at a period of time greater than one year, such as a promissory note.

Todd: Oh, whoa. That's a lot to remember.

Merlin: We're not quite done. Other current assets are, for example, inventories. Other long-term assets are, for example, goodwill, copyrights and long-term accounts receivable.

Suzie: Dare I ask about liabilities?

Merlin: Liabilities are obligations of the business that have arisen from past transactions or events. Current liabilities typically have a repayment date of one year or less, while long-term liabilities are those with repayment dates of more than one year.

Todd: That's the kind I like.

Suzie: Uh-oh, Matilda!

Todd: Up to no good, no doubt.

Matilda: Let's see what that little twerp, Todd, has been saying about me in his e-mail. I just have to get out of this stupid site. Biz Wiz?

Merlin: Careful, if she exits or deletes the site, we'll be thrown into the far reaches of cyberspace, perhaps never to return.

Co-worker: Hey, Matilda, you're missing the staff party.

Todd: Oh, that was close. Being lost in cyberspace would really bite.

Merlin: Quite. Let's hurry now, we're almost done. Stockholders' equity is next.

Suzie: Uh-oh. This is the part where my eyes glaze over.

Merlin: Stay positive, Suzie. Stockholders' equity is the difference between the total assets and total liabilities of the company. It represents the claim of the owners of the business.

Suzie: What form does equity take?

Merlin: The components of stockholder equity are: capital stock, that is, the number of shares issued or outstanding at par value; retained earnings, net income for the year from the income statement minus the dividends paid; and other paid-in capital, that is, capital realized from stock sold in excess of par value.

Todd: Right.

Merlin: The balance sheets must balance the assets owned by either creditors or owners. Let me give you a simple example. A person buys a home for $200K. The bank loans you $150K. How much equity does the person have?

Todd: $50K?

Merlin: Right on. Simple, right?

Todd: Well, yeah.

Merlin: Now, the last thing you need to know about is the statement of cash flows. This statement shows how the company has used its cash. It's a summary of the cash receipts and payments over the accounting period.

Suzie: That's it?

Merlin: That's it. The net total is the net increase or decrease in the cash balance of the business. Cash flow is the most critical aspect of finance. The cash flow statement is similar to your personal checking account.

Todd: Uh-oh, we're in big trouble, dude.

Merlin: Any cash that flows into the business is added to the balance from the previous year like a deposit. Any cash that has been used by the business is deducted like a withdrawal.

Suzie: But when I look at a cash flow statement, there are all these categories.

Merlin: The general categories listed on the cash flow statement are easy to understand. First, there's operating activities. This includes net income (that is, a positive cash flow, or deposit), or accounts receivables or inventories (which are negative cash flows, or withdrawals).

Suzie: I see.

Merlin: Then there's investing activities: the purchase of property, plant and equipment or fixed assets, which would be considered...

Todd: Negative cash flows.

Merlin: By Jove, I think he's got it. Finally, there are financing activities (that is, interest paid on loans).

Suzie: Another negative cash flow.

Merlin: Affirmative. Other financing activities include new loans and stock sold.

Todd: Positive cash flow.

Todd: Hey, this isn't so hard, after all.

Merlin: Told you. That does it. Seems like you've overcome your phobia.

Todd: Gee, I guess so. Hey, thanks, man. We got to go now.

Merlin: Hold your horses, young Todd. You've got to pass the quiz first.

Todd: The quiz? Oh, I never take those quizzes.

Merlin: Oh, you'll be staying with me then. Wonderful, I could use some company in here.

Suzie: Wait a minute. You mean we can't get out unless we pass?

Merlin: That was the agreement, remember?

Todd: Oh no, the pressure.

Merlin: Stay calm. Only three questions. First, what is net income?

Suzie: Revenues minus expenses equals net income. You find it on the income statement.

Merlin: Superb. Question two: On the balance sheet, assets equals liabilities plus...

Todd: Net worth.

Merlin: Outstanding. Now, for all the marbles, what's your favorite color?

Todd: Blue.

Suzie: No, red.

Merlin: Good enough.

Matilda: Oh, Todd, there you are. It's time. I'm really looking forward to your report.

Todd: Oh, when you take into account our retained earnings and other paid-in capital, our stockholders' equity is at an all-time high. Pretty cool.

Jeff: Well done, Todd. I have to admit, you made a dry and often confusing subject positively scintillating.

Todd: Oh, thanks.

Host: Welcome back. As you've seen, there's a lot to think about when it comes to determining the financial health of your company. You should become aware of the purposes and uses of financial statements and how they can contribute to and impact a positive stock price, as well as how the company's stock price can affect them.

LESSON 3 ~ KEY FINANCIAL RATIOS

Host: Welcome to Key Financial Ratios. Financial ratios are the principal tools of financial statement analysis and are used to measure the financial success of a company. In this program, you'll learn how to identify, calculate and interpret key financial ratios. Additionally, you'll learn that financial ratios have the greatest significance when used to make year-to-year comparisons for purposes of determining trends, and can also be used in comparisons with industry or key competitors' data. Watch now as Merlin conjures up a little financial magic for two hopeless employees of Falcon Industries.

Matilda: I don't know how Todd and Suzie bluffed their way through the quarterly reports, but now they have to give a presentation on key financial ratios, and they wouldn't know a ratio if it bit them. I'm so up for watching them crash and burn.

Suzie: Biz Wiz? I don't know, Todd. I've heard some strange things about this site.

Todd: Like what?

Suzie: Well, that if you enter, you really enter. You know, like Alice in Wonderland?

Todd: Suzie, are you on something?

Suzie: What I mean is, why can't we just learn this stuff like everyone else? Let's see. Operating profit margin, return on assets, return on net assets, liquidity ratio, price to earnings ratio. Are you kidding me?

Todd: Come on, Suzie. This site will help us learn that stuff.

Suzie: Oh, all right. How could those silly stories be true anyway?

Todd: Cool. Agree and enter. Whoa. I feel so two-dimensional.

Suzie: I don't like this, Todd.

Merlin: Well, well, what have we here? Two seekers of knowledge?

Suzie: Yes, we're here to learn about key financial ratios. Who are you?

Merlin: Merlin's the name. Helping people with business is my game.

Todd: Excellent. Any relation to that wizard dude in King Arthur?

Merlin: One and the same, young man. Cyberspace is my posting for the new millennium, and I've dressed for the occasion. Now there's several different types of financial ratios. Which would you like to know about?

Todd: Uh, I don't know.

Merlin: Very well. I'll teach you all of them. Don't look so glum. This is going to be easy and fun. Key financial ratios are used to measure the financial success of a company. They're the principal tools of financial statement analysis. By definition, they indicate relationships that have the greatest significance when used to make year-to-year comparisons for the purpose of determining trends or when used in comparisons with industry or key competitors' data.

Suzie: Okay. Are we done?

Merlin: We've only just begun. These ratios are similar to a stress test you might take to show your physical health, endurance, strength, etc. They measure the financial health of a company.

Todd: Oh, that's cool.

Merlin: Indeed it is. Now, there are profitability ratios - ratios that measure the degree of success in creating wealth; efficiency ratios - ratios that measure efficient use of resources; liquidity ratios - ratios that measure the ability of a company to pay its current debt or long-term obligation; and leverage ratios - ratios that measure debt to stockholders' equity. We'll get into details as we discuss each.

Suzie: What are these ratios used for?

Merlin: Typically, ratios are used to compare and contrast past accounting periods, planned performance and similar businesses. But remember, one number or ratio is never enough to accurately judge financial health or detect positive or negative trends.

Suzie: Of course not.

Merlin: Let's talk about profitability ratios first - for example, return on sales. Return on sales measures the overall profitability of a company by showing the percentages of each sales dollar retained as profit after taxes.

Todd: Huh? Gnarly display of contemporary wizardry, Merlin.

Merlin: Thank you.

Suzie: I hate to sound stupid, but could you give us an example?

Merlin: Certainly. Referring to an income statement. Let's say the Acme Snowboard Company had a net income of 120K and sales of $3 million. Return on sales - net income divided by sales - is 4% return on sales.

Todd: Oh, I get it.

Merlin: Look for reduction in the return on sales margin - that is, net profit divided by net sales from the previous year. Compare with the industry average or your main competitor.

Suzie: So let me see if I get this. The return on sales margin shows the percentage of each sales dollar retained after paying all taxes.

Todd: And measures the overall profitability of the company?

Merlin: Brilliant. The next profitability ratio you should know about is operating profit margin. Operating profit margin shows the percentage of each sales dollar retained after paying operating expenses.

Suzie: Operating profit margin equals profit before taxes divided by sales.

Todd: What does that mean in plain English?

Merlin: Operating profit margin measures the relative effectiveness of expense control. These numbers are also found on the income statement.

Suzie: Could you give us another example?

Merlin: You bet. Let's say Acme Snowboard had 200K in profit before taxes and $3 million in sales. This results in an operating profit margin of 6.7%.

Suzie: Is that good?

Merlin: Maybe yes, maybe no. You see, operating profit margin is a standard of comparison to evaluate how your business is doing from year to year. Now it's time for return on assets.

Todd: No, no. Let me - if that's all right, man.

Merlin: No problem, dude.

Todd: Awesome.

Merlin: Return on assets evaluates how effectively a company is managed by comparing the profitability of a company and its investments. This is a general indicator of the operating efficiency of a company or a division.

Suzie: Right.

Merlin: Let me elucidate. You'll find net income on the income statement and total assets on the balance sheet.

Todd: Oh, I know what those are.

Merlin: Marvelous. Now, let's say the Acme Snowboard Company had 120K net income and $1.8 million in total average assets for the past year, yielding a 6.5% return on assets.

Suzie: That's pretty easy once you know the formula.

Merlin: Now it's a simple step to our next profitability ratio - return on net assets. Care to give it a try?

Todd: Go for it, Suze.

Suzie: Well, all right.

Todd: Wait. That formula is the same as the last one, except you're subtracting current liabilities.

Merlin: Astute observation, young Todd. Return on assets evaluates how effectively a company is managing its operating assets, not encumbered by short-term liabilities or claims. These numbers come from the income statement and balance sheet.

Suzie: For example, if Acme Snowboard had 120K in net income, divided by a total average assets of $1.8 million minus, say, 300K in liabilities, then the return on net assets would be - hold on... 120K divided by $1.5 million equals 7.8%.

Merlin: She's feeling it! Now, for the last profitability ratio - return on equity. Very simple, indeed, this one is. Investors generally regard return on equity as the best indicator of the overall success of a company and its management team.

Todd: How come?

Merlin: Return on equity measures how well the company's produced a profit, utilizing its investors' money - the company's equity.

Suzie: What's a good ROE?

Merlin: Generally, 10% or greater. If the ROE is below 10%, investors can usually get a better return by making alternative investments.

Todd: So, like if the Snowboard Company had an income of 120K and equity of, say, 900 grand, then its ROE would be...?

Suzie: 13.3%. Not bad.

Todd: All right. Uh-oh, Matilda.

Suzie: Why does she have it in for us Todd?

Todd: Beats me.

Matilda: Todd? Suzie? Good, they're not here. Oh, here's that dorky Web site, Biz Wiz. Let's delete this sucker, shall we?

Merlin: Great Scott, if she exits the site, we'll be thrown into a random location in cyberspace. There's no telling where we'll end up.

Co-worker: Hey, Matilda, pizza's here.

Matilda: Pizza?

Todd: That was close.

Suzie: Let's hurry and finish before she comes back.

Merlin: A capital idea. Let's begin with efficiency ratios. The first is days sales outstanding. Let's see if this still works.

Suzie: You're losing me, Merlin. What's this all about?

Merlin: The days sale outstanding ratio measures the activity of accounts receivable. A prolonged collection period means that a company's funds are financing customers and not contributing to the cash flow of the company.

Todd: Pretty bogus.

Merlin: Indeed. The numbers come from the balance sheet and income statement. For example, say Acme Snowboard had 350K in ending accounts receivable. Annual sales of $3 million are divided by 365 days or 8219K per day. This equates to 43 days' worth of sales outstanding.

Suzie: And what does that mean?

Merlin: Collection periods of 45 to 60 days might be considered excessive, but it's best to compare with the industry average or a key competitor.

Todd: Well, how does that happen - excessive collection periods, I mean?

Merlin: Excellent question. Possible causes include an inefficient accounts receivable system or department, slow payment by customers due to incorrect billing, selling to high-risk customers and/or a decrease in sales. Consider if company initiatives can reduce the collection period.

Suzie: We'll be sure to do that.

Merlin: Now, on to our next efficiency ratio - inventory turnover. Inventory turnover evaluates how fast funds are flowing through cost of goods sold to produce a profit.

Todd: Come again?

Merlin: If inventory turns over faster, it is not in the plant as long before it is salable as a product. A decreasing ratio indicates that a company is investing in inventory faster than money is coming in from sales, therefore having a negative cash flow.

Todd: That's uncool.

Suzie: What are the possible causes of that?

Merlin: Inaccurate sales forecasting, decreased sales productivity, sales competition, ineffective production scheduling or slow-moving inventory lines.

Suzie: Also, a company may be purchasing inventory faster than it is being sold.

Todd: Well how do you fix that?

Merlin: Here are some opportunities to explore. Can your company's initiatives reduce inventory or improve sales? Also, inventory can be reduced by better forecasting and production scheduling. Finally, slow-moving, obsolete products may benefit from market intelligence to determine where and how much to discount.

Suzie: That makes sense.

Merlin: Of course it does.

Merlin: Now, let's move on to something called current ratio. This is a liquidity ratio. Current ratio measures the liquidity of a company. Does the company have enough money to pay current bills? The ratio should be at least 2:1. The numbers come from the balance sheet. Companies that have a ratio of 1:1 have no working capital.

Suzie: In other words, if Acme Snowboard had 600K in current assets and 300K in current liabilities, the current ratio would be exactly 2:1, right?

Merlin: It's that simple.

Todd: Oh, I can get with that. Are we done yet?

Merlin: Almost. All that's left is leverage ratios - like debt to equity. Debts to equity can be described as the extent of ownership of the stockholders in the company after all claims and liens.

Suzie: Equity is also called capital or net worth. What's this ratio for?

Merlin: Banks use the debt to equity ratio as a measure of creditworthiness for loan evaluation. Most banks will loan up to a 2:1 ratio.

Todd: Oh, so taking these numbers from the balance sheet, if Acme Snowboard had a debt of 800K and equity of $1 million, its debt to equity ratio would be only .8, right?

Merlin: Yes, and extremely creditworthy indeed. Our last two leverage ratios are just as easy - earnings per share and price to earnings. Earnings per share provides the net income per outstanding shares of stock held by investors. The numbers come from the income statement.

Todd: Whoa. Let me see if I get this. If there's 100K in income divided by a million shares, that's 10 cents per share.

Merlin: Exactly right. Next, the price to earnings ratio gives investors an idea of how much they're paying for a company's earning power. The higher the P/E ratio, the more the investors pay and the more earnings growth they expect.

Suzie: So if Acme costs one dollar per share and earns 10 cents, the P/E ratio is 10.

Merlin: Yes. These numbers come from the day's stock market quote for price per share. Earnings per share come from the earnings per share calculation.

Merlin: Had enough?

Suzie: Yes. Can we go home now?

Merlin: Of course. Actually, you could have gone home at any time. All you have to do is click your heels together three times and say, "There's no place like home."

Todd: Dude, you can't be serious.

Merlin: I'm not. See you around.

Suzie: That was really bizarre, Todd.

Matilda: Oh, Todd, Suzie, there you are. Everybody's waiting for your little talk on key financial ratios. It should be a lot of fun.

Suzie: So you see, with our increase in assets and decrease in liability, our current ratio has risen dramatically.

Todd: And when you look at our debt to equity ratio, which is remarkably low, we have the leverage to invest in some, like... strategic stuff.

Jeff: Amazing, Todd. You've made a subject that many find dull and incomprehensible sharp and crystal clear. Bravo!

Suzie: Thanks.

Todd: Yeah, thanks.

Suzie: Way to go, Todd.

Todd: No problem.

Host: Welcome back. As you've seen, understanding key financial ratios is crucial to assessing the overall financial health of the company. Having the skills necessary to identify, calculate and interpret the five categories of key financial ratios gives you the ability to determine your company's overall stability and endurance and to make more informed business decisions.

LESSON 4 ~ LINKING FINANCIAL MANAGEMENT WITH ORGANIZATIONAL GOALS

Hi, I'm Russ Christoff with Playback Media, and our topic for today is Linking Financial Management with Organizational Goals. Joining me today is John Swinburn, President of Challenge Management Incorporated. John has made numerous presentations on budgeting and financial management and has developed seminars on budgetary issues. Welcome, John.

Thanks, Russ. Nice to be here.

John, it's pretty clear that budgeting has an impact on organizational health. What are some of the key issues affecting the health of an organization?

One of the key issues is the degree to which there's congruence between the organization's goals and objectives and the financial infrastructure that's there to support those goals and objectives.

Now, virtually everyone in an organization is affected by budgets. How do their roles, in turn, impact the financial operation of the organization?

Their roles impact the financial operation of an organization by virtue of the fact that any activity in which they're engaged is, effectively, a financial activity. So, if they don't understand, for example, what their roles are, what they're intended to do for the organization to support the mission, then they

could be doing things that simply are unrelated. And again, because every activity has a financial consequence, they have an impact on the budget.

What are one or two common challenges that managers and employees face when dealing with financial management?

One of the primary challenges is really a matter of inadequately understanding what the relationship is between an organization's goals and objectives and the financial infrastructure that is there to support those goals and objectives. That's really a critical issue.

So what are the things that we should do to overcome these challenges, John?

The primary thing that I would suggest is to share information to get buy-in from the start - to ensure that everybody involved in the process is given the opportunity to share their ideas, to share their dreams for the organization and their role in the organization and to talk about what impact those objectives that they set in the organizational environment have on achieving the financial goals of the organization. Again, those financial goals tie in to the core objectives of the organization.

Do you have a success story that you can share with us?

One organization in particular, several years ago, was experiencing lackluster financial and operational performance. It wasn't doing too badly, but it wasn't a real superstar either. I went into the organization and began to talk to people about what they were doing, what their objectives were, how they were performing financially and discovered that people didn't really understand what the organization's goals were, and they certainly didn't understand the relationship between the financial activities of the organization and the overall objective achievement. So what we did was talk to people about what their goals were, how their goals tied into the fundamental organizational goals, and we spent some time defining those organizational goals with everybody involved. We then talked to them about how their goals were impacted by the financial support system that was in place. And they began to understand that achieving the organization's goals was primary. The financial infrastructure was simply a tool to accomplish that, and it was secondary. And things really turned around quickly.

Very informative. Thanks for joining us today, John.

Thank you, Russ.

LESSON 5 ~ THE BUDGET BLUES

Bob Rosner: Studies have consistently shown that for the average person, there's only one thing more difficult to talk about than sex - money. Now we're going to help you learn to love working with budgets and here are some tips. Could your financial skills use a tune-up? Most community colleges teach accounting, so do schools on-line. There's also probably someone in your accounting department who would be willing to serve as your tutor. But if you're like me, you probably find budgeting about as exciting as a root canal. I'll admit, I suffer from MEGO - "my eyes glaze over" when it comes to rows and rows of numbers. But I've learned the way to avoid this syndrome is to play a little game with yourself. I look at the numbers in my budgets and visualize the things those numbers represent. I visualize my staff people when I look at the salary column. I see working wounded hats and books and shirts when I look at the premium items column. The more I see the things the numbers represent, the more the budget comes to life. Can you calculate an ROI? One of the most important and most overlooked tasks for a budgeteer is calculating the return on investment, or ROI. Instead of just putting something in your budget because you think it's a good idea, quantify the benefits that will accrue as a result of that expense. First, determine the cost of doing business the old way. Then figure it out again using the product or service you'd like to purchase. This is one of the best investments you can make. Is there a cushion? Hey, stuff happens. Do you have a contingency plan if an unexpected problem or an unexpected opportunity arises? Are you over-relying on the numbers? Sure, budgets are important, but so are customer service and marketing and management. A guy I knew had immaculate financials and still ran his business into the ground. So it's essential for all of us to learn to love budgets. Let's face it, there is nothing sexy about a budget, but use our tips and at least it should be easier to talk about.

DIVERSITY EFFECTIVENESS

LESSON 6 ~ ETHICAL DECISION MAKING

Host: Welcome to our program Ethical Decision Making. The word "ethics" is derived from two Greek words meaning "moral" and "character" - we trust you are of moral character. So the purpose of this program is not to teach you ethics, but rather to reinforce the fact that competitive excellence begins and ends with a commitment to ethical conduct. During this program, you'll learn the importance of conducting business in an ethical manner. You'll also learn how to apply a practical method to reach ethically sound business decisions. Watch now a typical day in the life of one employee and how he deals with the challenges and pressures of sustaining ethical behavior.

Eric: My name is Eric. I used to work for this company, or what used to be a company. Man, what a lesson. I had no idea how important it was to make the right decisions, the right ethical decisions. See, if you do that, it all comes together, baby. It'll protect the reputation of the company and you. It'll totally build customer confidence and trust. It'll grow your customer's business and keep the customers you got. And it'll let you hang onto all that top talent in your company that everyone is always worried about. See, I know that now; I didn't know it then. My story isn't that unusual, because I'm just like you. I'm a pretty honest guy. Most unethical business practices that hit the news, well, they're done by basically honest people. What's up, Lacy? Lacy was one of my top salespeople. The Crenshaw account? Now, there are three classical challenges to ethical behavior. I didn't know this. Well, let's just take this one step at a time. There are external pressures, self-imposed pressures, ignorance. Well, I think that's my specialty. Whoa, don't do anything until I get there. Let's talk external pressures. Now I probably put a little too much pressure on Lacy to...Keep those numbers up. Crenshaw is ready to be closed. Get them and we're all in bonus territory.

Lacy: I'm not going to slam dunk these guys. I guarantee you, I'll close them. I just want to gain their trust in the process. We have to make sure we don't come across...

Eric: Lacy, Lacy, Lacy, Lacy. Okay, let me put it to you this way. The board meeting's next week, so I bet if you close these deals now, you're going to find yourself tanning yourself in the Bahamas. Remember when you told me you wanted to go to the Bahamas? Now all expenses will be paid for by our loving company.

Lacy: What he's really saying is, "Results are all that matter" and "No one really cares how you get it done, just get it done." And, "Be a team player."

Eric: That's exactly what I was saying. I thought I was just going for it, but these messages I was sending were a recipe for freakin' disaster. Oh, another external pressure. When dealing with unreasonable customer demands, it's your responsibility to help customers understand what can and can't be done within the limits of technology, time and/or money. What I'm saying is, help set the customer's expectations at a realistic level, and accurately represent your company's capacity to provide the product or services required. Oh, another thing, some people will promise anything to satisfy a demanding internal or external customer. I wish I would have known this stuff before.

Julie: This is Julie.

Eric: This is Julie.

Julie: Hi, Chet.

Eric: And Chet, a really demanding customer.

Julie: I was just ready to give you a call.

Eric: Really demanding.

Julie: Sure, we can do that. I'm sure of it. Completed next week? Well, I think. If we - I mean, of course we can do it, no problem. We love your business.

Eric: We loved his money. See these promises might initially result in less conflict and more customer satisfaction, but it's an illusion. Over the long haul, these types of actions are going to lead to a loss of customer satisfaction and trust and damage the reputation of the individual, and the organization.

Julie: All right, consider it done. No problem. No problem. Okay, bye. Big problem. Hey, it's me.

Jeff: Hey, Julie. Uh-huh. Oh really? Next week? You're kidding? Everything done? Well, I suppose...No, it's cool, I can do it. Man.

Eric: This would be called self-imposed pressure. There's more pressure on people in organizations than there has ever been to do more with less and adjust quickly to change. In response, the temptation to cut corners and engage in expedient self-serving behavior is always there. Then there's the self-preservation mode, people telling their managers what they want to hear, not telling it like it is. I mean, continuous striving towards achievement is great, but winning at any cost or by any means, can cost your company and you a ton. Let's talk about ignorance. Reminds me of my old boss from my very first job. I was just a kid, but I remember like it was yesterday. He used to say...

Boss: Ignorance of a law is not an acceptable excuse in a court of law, young man. And ignorance of your company's acceptable business conduct - sometimes referred to as a code of ethics, code of conduct - it's not an acceptable excuse for unethical business practices at your company.

Eric: He was absolutely right. It's our responsibility to know and follow company business conduct and practices, not to mention applicable federal laws.

Boss: And don't forget, it's also your responsibility to create an environment that fosters the same behavior from your employees. Do you understand that, young man?

Eric: Well I get it now. I mean, each of these three challenges are always present and we have to be prepared to effectively deal with them as individuals and on a day-to-day basis. I learned a lot from that guy. A little late, but I learned a lot. Now this is the thing that was really bugging me. See I used to think - I mean, how do you make an ethical decision? My ethics are different than your ethics, your ethics are different than his ethics, blah, blah, blah - well no. Here's how you do it. It's really easy, just like getting dressed for work - one step at a time. Ask yourself these questions to determine if your behavior's being conducted in an ethical manner. First, is it legal? Next, does your decision follow company policies? Third, does your decision follow your company's management practices? Does your decision violate any ethical values? And finally, does your decision violate any of your own personal values? That's it, simple, but challenging. To help you figure out if it's legal, ask yourself some questions like - See, what's the relevant law? What's the current interpretation of this law by the courts? And how does this alternative fare under the law? And, is your butt going to wind up in court? I mean, if I would have known that, I would have been the man. Laws are good, I mean, they give us a kind of freedom. See, federal and state laws have been passed in the United States to ensure uninhibited competition, a free marketplace and protection of workers' and consumer rights. There are specific laws that deal with foreign corrupt practices for U.S. multinationals, contract dealings with the United States government, U.S. antitrust and unfair competitive practice laws, local government laws and regulations. Aha, behind closed doors.

Julie: You know, I've never had a request like that. I think that might be like illegal.

Eric: What's that all about? You have the responsibility to become familiar with and comply with the laws and regulations that relate to your company and job responsibilities. No if's, and's or but's. Man, I sound like my mom. There are some general guidelines you should consider. Oh, here's a kooky one - obey the law.

Julie: We want to do whatever we can to accommodate you, but are you sure that isn't illegal? I mean, it sounds kind of fishy.

Eric: Fishy? Come on. If you have the slightest doubt about the legality of something you're thinking about doing, don't do it until you get, what, legal advice from your company's law department. That's what the law department is there for, to be your counsel. Use it to find alternatives that aren't going to place you or your company at risk. It blows me away that people can do such stupid things.

Julie: I'm still not real comfortable with this, but, you know, Eric gave it the go-ahead, so let's do it.

Eric: All right, all right, call me stupid. If you're at the crossroads making a decision, before you do anything, you have to figure out if your choice follows your company's policies. Now ask yourself if your decision is in accord with your company's code of ethical conduct. And ask yourself the following

questions: What is the published policy? What is the intent of the policy? And is the alternative in conflict with these policies? I have had nightmares about what I should have told everyone about these things.

Boss: You didn't even tell them that companies formulate, communicate and reinforce policies to ensure everyone in the organization knows what treatment they can expect from the managers in their company, and what the company expects of them? Did you?

Eric: I forgot to mention that. I guess I had a lot of things on my mind.

Jeff: Other things? You never even mentioned about that code of ethics thing, did you?

Eric: Oh man, the code of ethics thing.

Jeff: Yeah, if your company publishes a code of ethical conduct and related policies that affirm the core values of the company, then we need to be familiar with them.

Eric: He's right, and it's our responsibility to know our company's policies and comply with them in our working with or management of people, work and resources.

Julie: I didn't know how to figure out if my decision matched the company's management practices. I really wish you would have told us to ask ourselves how have issues been dealt with in the past? What actions have been rewarded or punished? How would you feel describing the intended action to your peers, your boss?

Lacy: And, is this decision in accord with your company's strategic principles? Would you have to falsify or omit reporting the action on any internal documents or reports? How would you feel if the action were published in the company newspaper? And what about day-to-day management practices?

Eric: And the hits just keep coming.

Boss: I guess you were too busy to share that while the company's policies represent the core of our organization's values, the day-to-day management practices that characterize a company's style or culture. In other words, the way things are done around here. That would have been way too hard.

Jeff: And way too hard to share that this doesn't mean everyone is disregarding the code and related formal policies. It's just that policies can't cover every operating consideration nor can they spell out the appropriate response to every situation.

Lacy: And way too hard to share one little final point here, that unethical acts usually can't stand the test of disclosure or possible scrutiny. I had no idea that one could simply ask themselves if you could openly discuss this alternative with your boss or peers.

Julie: And could you detail about what you're thinking of doing on internal or external documents or reports?

Boss: Would you have to falsify, omit or misrepresent the true facts on any reports or documents? Why? Why not? The answers to these questions are going to test the viability of your...

Eric: ...considered alternative. Yeah. Yep, I get it now. I get it now. We're faced with opportunities to make ethical decisions all the time. Looking back, I see how many opportunities I missed. We always have to be prepared to do the right thing, and we have to be ready to help others do the right thing. Hello?

Lacy: Hey, Eric, I have a situation. This really hot prospect. Man, they have tons of cash, Eric. Anyways, they - well bottom line, I guess I'm a little confused how to figure out if a decision violates ethical values or principles. I feel like this is kind of a gray area.

Eric: We all have those moments that we want to do what's easy.

Lacy: They have tons of cash, Eric. Tons of cash. Eric, they have tons of cash.

Eric: But you got to be strong and do what's right.

Eric: Well ask yourself, who benefits and who's harmed by the alternative?

Lacy: Yeah, I know. You're right, that makes a lot of sense.

Eric: And how are the benefits and negative burdens distributed? I mean, are anyone's rights negatively affected by the alternative?

Lacy: Oh geez, that starts to make the decision a little clearer.

Eric: I hear you Lace, really, I do. And also, ask yourself, does this alternative coerce or deceive or exploit any other person to advance your own interest? I mean, how would this alternative be described by the media? Does it help or hinder our corporate image or goodwill?

Lacy: Ouch. I know what I have to do. Now I feel kind of stupid.

Eric: No, that's real common to be confused in those situations, and I'm glad you asked, really. I mean, we have to rely on each other. I mean, to be there for each other...It was obvious what I should have done in that situation, how I could have helped change things.

Lacy: Hey, I got another call. Eric, thanks.

Eric: No prob.

Lacy: Hello?

Jeff: Hey Lacy, Jeff. Quick question. I'm trying to make a decision here. I'm trying to figure out who benefits and who's harmed. And who is who? I mean, who are the players I need to be concerned about?

Lacy: That would be the stakeholders. You know, other employees, stockholders, customers, vendors and the general public.

Jeff: Oh, cool. Makes sense.

Lacy: Easy breezy. So, if you were a member of each of these groups, what would be your self-interest? How would this decision help or hurt you?

Jeff: Thanks, Lacy. I'll call you back, I got another call. Hello?

Julie: Hey, it's me. I'm bummed out. I mean, what's the basis of this whole ethical thing? What's the point?

Jeff: We just want to make sure that everyone's on the same page, that everyone considers the consequences of their decisions.

Julie: Oh sure, or the greatest happiness for the greatest numbers. Oh, hey, I got another call. Hello?

Eric: Hey, it's me. I'm just checking in, seeing if you're okay.

Julie: Thanks, I appreciate your concern, that means a lot to me. I do have one question though...

Eric: You see, our moral centers are usually not that far off. Julie was just confused about people's rights being negatively affected by our alternatives. Basic rights that we all have that are guaranteed under our Bill of Rights - the right to life, health, safety. In other words, would you find this action acceptable if it were done to you rather than by you? If I had taken a little time to think about my decisions, to help others think about their decisions, how different things could have been. Personal values, that's the last thing to focus on, your own values. Used to confuse me, that personal value thing. Ask yourself if your alternative conflicts with your values of right and wrong, and are you betraying the trust of those whose interest you're being paid to represent? And would you be comfortable with telling your family over dinner that you did what you did? This is the most important part of the decision-making process, they represent the beliefs that we hold ourselves accountable. They make no distinction between good times and bad. Even when you are under the most immediate kind of pressure, look to the value system you have constructed for yourself as a guide for what you will do or will not do. Don't make the same mistake I did. You see, in the end, ethics is really about personal choice - how you choose to deal with others, how you choose to be regarded, how you choose to live your life and who you choose to be.

Operator: We're sorry, the number you have reached is not in service. Please check the number or try your call again. This is a recording.

Host: Now, your own work situations may differ somewhat from the one you've just seen. Nonetheless, I'm sure you can recognize and explain the importance of conducting your own business in an ethical manner. Remember, it is and always will be, your choice. Your decisions and actions can affect stakeholders, employees, customers and, in turn, your corporate image or reputation in the marketplace.

LESSON 7 ~ DIVERSITY EFFECTIVENESS

Host: Welcome to Diversity Effectiveness - An Overview, the first program in our Diversity Series. Diversity in the workplace goes way beyond race, sexism and gender. It's composed of a changing blend of attributes, behaviors and talents, characterized by difference and similarities. During this program, you'll learn the meaning of diversity and diversity maturity. You'll also learn the steps to diversity effectiveness and how they can be applied. Watch now as Angela, Curt and Melissa share with us what they've learned about diversity.

Melissa: I'm Melissa.

Curt: I'm Curt.

Angela: I'm Angela.

Melissa: We're going to a meeting.

Angela: A taskforce meeting.

Curt: A diversity taskforce meeting and I'm getting a killer workout.

Melissa: The three of us were assigned to head up a Diversity Taskforce at our company. We need to come up with ways to ensure we have a representative workplace. And now we're going to pull it all together.

Curt: We've learned that one must think of diversity in broad terms. It goes past race, sexism or gender. It's a blend of attributes and behaviors and talents.

Angela: Diversity can also refer to different functions within an organization. Like marketing, or finance or research. Even personality and style, or multiple approaches to situations.

Melissa: We've been living and breathing this stuff. Check this out.

Melissa: Diversity...

Angela: ...is a collective mixture

Curt: ...of items characterized by

Melissa: ...differences

Angela: ...and similarities.

Curt: This definition helped us better understand the meaning of diversity. It goes beyond the typical corporate definition that defines it as "main" people. And "other" people.

Angela: In other words, a lot of corporations tend to separate the majority from the minority in categories like race and gender.

Melissa: Go beyond the typical definition of diversity and what everyone else is doing and that means becoming an effective...

Curt: ...diversity

Angela: ...respondent.

Melissa: That's another name for people who act with understanding and objectivity and wisdom when dealing with people who are different than them. Effective diversity respondents have what's called diversity maturity.

Angela: Don't freak out. Diversity maturity just means when you get knowledge of diversity and understand its concepts and dynamics. You think you got it? Well, let's see what you would do in this situation?

Angela: Well, I guess you can say diversity maturity suggests a deep clarity of the fundamental concepts of diversity and a certain sophistication in thinking and understanding. It's gained through formal and informal education, personal reflection and putting diversity principles into action on a daily basis.

Curt: Diversity-mature people identify two kinds of diversity: Attribute diversity, like ethnic group, or age or education. And behavior diversity - that's how people act in a certain situation.

Melissa: All right, bottom line. What actions does it take to be diversity mature? Seven things. One, diversity-mature people would take personal responsibility with addressing diversity to make their environments diversity friendly.

Curt: They're also going to strive to improve the organization's ability to address diversity. How? By educating others on how the common culture views people who are different. And what can be done so people are treated equally. Diversity-mature people see and use themselves as role models for others.

Angela: Number two. They demonstrate contextual knowledge. Just another way of saying, they know themselves and their organization and they understand key diversity concepts and definitions. So, first they have to demonstrate a knowledge of themselves.

Curt: See, people who are working toward diversity know the journey begins with themselves. They develop personal goals, objectives and requirements regarding diversity and review them periodically. Ask yourself these questions:

Angela: Am I comfortable working with people from all demographic groups?

Melissa: Is there a group or groups that I struggle to accept?

Curt: If so, how have I attempted to overcome my biases?

Angela: How will my comfort with people different from me affect my ability to advance within this workplace?

Melissa: Do I enjoy diversity?

Curt: If so, what kind?

Angela: If so, how much? Diversity-mature people also demonstrate a knowledge and understanding of their organization. They know that in today's business, diversity decisions must be made in context with corporate requirements and priorities.

Curt: Diversity-mature people can identify which diversity mixes are likely to have the most impact on the mission and vision. They realize that mixtures other than those related to the workforce are also strategically important. Diversity-mature people work with their managers to determine how their own personal diversity management capabilities can be applied to benefit the business goals and practices. So you have to ask yourself some questions to help you format diversity goals to benefit your company. What is the company's vision? What is its mission? What are the principal objectives? What are its key strategies? Do we need diversity in this organization or in this situation to succeed? If so, what kind? And if so, how much?

Melissa: Also if you were a diversity-mature person, you would show real conceptual clarity about diversity. See, they define diversity as a collective mixture of items characterized by differences and similarities. Effective diversity respondents know awareness of similarities encourages cooperation and cohesion.

Curt: Further, the more complex the organization and situation are, the more important it is to have some commonality. However, effective diversity respondents also know that they must acknowledge and address differences. In fact, most important is to create a balance between the two. Number three. Diversity-mature folks are clear about diversity requirements and can distinguish between a genuine requirement, such as a company's mission and vision and a preference, convenience or tradition.

Angela: Effective diversity respondents can identify the genuine requirements and consistently use them as a basis for making decisions about diversity. They create action steps to make diversity plans into reality, based on clear requirements.

Melissa: Number four. Diversity-mature people understand diversity is accompanied by complexity and tension, and are prepared to cope with these in pursuit of greater diversity effectiveness. Genuine diversity increases complexity. Diversity-mature people learn to function in the face of tension and recognize it as part of the dynamics of diversity. Tension will be there; it's part of working in the midst of differences and similarities. It can be positive, negative or both, or even neutral. For example, if used to stimulate innovation, it can benefit a company. Tension that decreases productivity, is obviously not good.

Angela: Number five. Diversity-mature people challenge conventional wisdom. They recognize that enhancing their diversity management capability may require them to go beyond conventional wisdom. They challenge conventional wisdom and make mind set shifts along the way.

Melissa: Six. Diversity-mature people place differences in context.

Curt: Well that's because effective diversity respondents know that differences simply are. Whether good, bad or neutral depends on the context. In other words, the difference has to do with the effect on the organization's ability to accomplish its goals. Effective diversity respondents accept or reject decisions based on how the differences mesh with these realities. They can accept attributes that fit even when their personal preferences are violated, as long as they don't hamper achievement of organizational goals.

Angela: Let go of hindering concepts. Diversity-mature people are able to let go of hindering concepts and unlearn, if necessary. They can be flexible, challenge stereotypes and be open to differences. Seven. Engage in continuous learning.

Melissa: Diversity-effective people express a willingness and ability to monitor themselves and their environment. They challenge themselves regularly and devise specific ways to work with new concepts, so they eventually become second nature. This requires a continuous learning process. This process of continuous introspection and learning is a must.

Curt: Diversity maturity requires experience and practice. Don't expect to achieve it overnight. Developing the mature diversity mind set necessary for effective application of the basic diversity management skills is the first step for moving forward. Fortunately, the combination of diversity-mature mind sets and skills work to reinforce each other - while practicing the skills we gain maturity. With increased maturity we find the skills are easier to utilize. Ready to figure out what to do in another situation?

Angela: Employees can work individually and together to apply steps to bring diversity effectiveness to their companies. First, gain clarification on all the different definitions and practices of diversity effectiveness and change. Make sure you take enough time. Make sure you have the time and can commit yourself to seek clarity of diversity approaches and definitions. If you can't, chances are you will not be very successful.

Curt: Expose yourself to multiple presentations of the concepts. Recognize you'll be parting from some of your company's diversity traditions, so you need to expose yourself to alternate ways of thinking. Even repeat seminars and conferences more than once, it's actually useful. Often people return to similar topics and sessions to pick up useful information they didn't catch the first time around.

Angela: Teach the concepts. The more you teach, the more you learn. By explaining a concept to someone, you will discover the areas where you could do more research. At the same time, it forces you to have clear definitions of certain concepts.

Melissa: Debate the concepts. Find people who you think will not agree with your diversity concepts and engage them in a constructive debate. This will force you to examine in greater detail why you support the concepts you do. In addition, you will have a greater understanding of what ideas you are up against.

Angela: Internalize the diversity management philosophy and understand its concepts in everyday life. Internalize what diversity means to you and your...

Curt: ...company in terms of your professional and personal goals. A critical aspect of internalization is identifying the key diversity mixtures in your life.

Melissa: Review how you addressed these personal mixtures in the past, and the outcomes. Then review what gains were achieved and what remains unsolved. Then ask yourself:

Curt: Do I think the diversity management process will help generate options for addressing the remaining issues? Would this process work for me? Does it provide me with greater insights? The clearer you are about your personal priorities, the easier it will be to determine the processes potential for you.

Angela: Apply strategic thinking. Think strategically about how diversity pertains to your organization's mission, vision, strategy and culture. In regards to your company, strategic thinking is the beginning point for collectively internalizing diversity concepts.

Melissa: Make sure your company's diversity goals are clear. Specify what change is needed and then establish priorities. In order to decide where to make the changes and to clearly explain them, compare what conditions are in effect at your company with what you want to see.

Curt: Develop new cultural roots in the organization and modify systems as necessary. Foster the continuing process of mind set shifting and personal internalization. Also, adopt new diversity skills and behavior. In addition, encourage others to internalize diversity into their work experiences.

Angela: Monitor what is happening. Monitor progress, raise expectations and improve diversity performance. Determine how and what the most effective way to monitor progress is. Most likely, the monitoring systems will be revised along the way. Then collect all the information you need to make the proper assessments, to see if your diversity plan is working. From here, you'll be able to improve upon old ideas and also enhance upon what is working.

Angela: Take actions to make your diversity goals a reality. The goal is for the company to collectively identify key diversity mixtures, diagnose related contingencies and apply action as dictated by the diagnoses. Let's see what you'd do in this situation?

Melissa: Achieving diversity objectives is possible by utilizing diversity skills and internalizing diversity concepts.

Curt: It's also made possible through the cultural and system changes put in place from the company internalizing diversity concepts into its day to day functioning.

Angela: The actions you and your company take are dependent upon specific diversity goals. However, good preparation makes it easier for choosing diversity plans and taking action. Like us, if you develop the skills in becoming an effective diversity respondent and apply the steps to diversity effectiveness, you can reap the rewards of having diverse people who are productive and flexible, in the pursuit of both organizational and individual objectives.

Host: As you've seen, to be successful in today's work environment, you need to act with understanding, objectivity and wisdom when interacting with people who may be vastly different from you.

LESSON 8 ~ MOVING TOWARDS DIVERSITY EFFECTIVENESS

Host: Welcome to Moving Toward Diversity Effectiveness, the second program in our Diversity series. To be successful in today's work environment, you need to become an effective diversity respondent. Now that means you have to demonstrate a blend of diversity maturity and core diversity skills. During this program, you'll learn the meaning of diversity. You'll also learn specific strategies for becoming an effective diversity respondent, and how to assess your diversity situation. In addition, you'll learn diversity action options and what steps you can take toward diversity. Watch now as Angela, Curt and Melissa meet to discuss strategies to becoming effective diversity respondents.

Melissa: Hello. Are you guys there? Curt?

Curt: Hey, what's going on Melissa?

Melissa: Angela, are you with us?

Angela: 10-4, everybody.

Melissa: So let's review everything we've learned for our Diversity Taskforce presentation.

Angela: I'll take notes.

Melissa: Okay. So first, let's like define diversity.

Curt: A collective mixture of items characterized by differences and similarities. So anyways, to be successful in today's work environment, people need to become effective diversity respondents.

Melissa: Okay, but we've got to define effective diversity respondent.

Curt: Someone who demonstrates a blend of...

Angela: ...diversity maturity and core diversity skills.

Curt: A virtual high five.

Melissa: But we can't just throw that out there. We have to tell people how to become effective diversity respondents.

Angela: That's right. How does one attain a state of effective diversity respondent?

Curt: At first I had to acknowledge my role. It started with accepting responsibility for diversity at work.

Melissa: That's true. Most people assume it's always someone else's problem so they don't take any responsibility for making a diversity effort.

Angela: Really? I mean everyone plays a role in making diversity happen. I had to start with myself because I'm the only person that I can control, and then diversity effectiveness will spread to those around me. Man that was great; I'm going to write that down.

Melissa: Okay, what else?

Curt: What else what?

Melissa: What else does it take to be an effective diversity respondent?

Curt: I had to examine my attitudes. It really brought it home when I asked myself some questions. Angela?

Angela: Ready.

Curt: Do I see discussions about alternate ways of doing things as a waste of time?

Melissa: Very good, Curt. How about, "Do I respond negatively when someone says, 'I think I have a better idea'?"

Curt: There you go. Do I wince when others dress differently than I find attractive?

Angela: Does change make me uncomfortable?

Melissa: Right on, you guys. We have to be clear that answering yes to any of these questions could be you're uncomfortable with diversity.

Angela: Hey, Melissa? The questions also suggest that we may be cutting off opportunities for professional growth. Someone might be excluding diversity before they even have the opportunity to evaluate it objectively.

Curt: What do you mean, "evaluate it objectively?"

Angela: Well, you evaluate it in the context of absolute requirements, like the requirements for achieving organizational objectives. You're driven by requirements, but you base your decisions on organizational objectives, not on personal preference or non-essential tradition or convenience.

Curt: Okay, check this out. Another way to help you be an effective diversity respondent – monitor your behavior. I just really had to think about it, how I normally behaved in situations where diversity was creating tension. What was a huge help, was Dr. Roosevelt Thomas suggests to keep a journal

for at least two weeks. That really worked for me. I kept track of my diversity encounters and responses. Then I could easily review and analyze my entries.

Melissa: To review, you'd just read through them?

Curt: More than that. I'd ask myself a couple of questions like: Did I capture all the diversity elements or nuances of the encounter? What kind of tensions did I see? What kind of tensions did I personally experience? How comfortable was I with the tensions? What were my responses to the mixtures and the tensions? How appropriate were my responses? Did they help to address requirements and issues or to make this more difficult? How flexible am I? Do I routinely rely on just one or two responses or do I change my responses to suit the situation? What is my assessment of myself as a diversity respondent? Do I need improvement? What would be the benefits to me? How critical are the benefits? Am I willing to do the hard work of monitoring my behaviors and changing those that don't contribute to diversity effectiveness?

Angela: Got to throw my two cents in.

Melissa: Start throwing.

Angela: I mean it really helped me to review priorities. I had to think about my own goals and priorities - my personal mission, vision and objectives. Specifying these things helped me to determine my motives for wanting to strengthen my diversity and to find a context for making decisions about diversity.

Melissa: You know what made the difference for me? Getting ready to learn. I discovered I had to build an understanding of diversity. I read books, articles...

Curt: I attended seminars.

Melissa: Self-instruction vehicles really helped me. All those things. Then I practiced using the concepts as I learned them.

Angela: I found it really helpful to have a learning partner. That way I could discuss my new knowledge and trade ideas.

Curt: Teaching was another way I got to play around with the basic concepts of diversity. It allowed me to gain a better understanding of information because I had to have enough knowledge to explain the topics.

Melissa: This is great stuff. What else? How can people become effective diversity respondents?

Angela: Design a plan?

Melissa: Design a plan.

Angela: While I was learning, I came across behaviors that kept me from reaching my desired level of diversity maturity and I had to think through ways that I could work on those areas.

Curt: That's a really good point. it helped me to review my diversity journal for clues to the dynamics that I find troubling. Then I talked it out and processed with my learning partner. Then I could go draw out a plan of how I was going to go about my journey, my personal growth.

Melissa: The final point would be, "Practice wherever you can." Because if your company stifles someone from practicing diversity skills, they can just use them in other settings, like with family, friends and community groups. A lot of people who are introduced to diversity concepts see relevancy in non-work settings where they can apply these ideas.

Curt: Also, people who start up this "diversity endeavor" in an outside setting, they can bring their knowledge and skills into their corporation when the timing is right. That way they can help their company get to diversity effectiveness.

Angela: Let's take a quick break. I've got to stretch my legs.

Melissa: Okay, that was helpful. Next, I want to put together a process on helping employees assessing their diversity situation. So if they've encountered a situation which they feel is problematic, let's put some concrete steps together to help them through.

Curt: Well first of all, I had to get clear on the problem, I mean I had to analyze what was happening. Figure out the specific problem and get rid of my prejudice and eliminate my bias from my assessment. It made a world of difference once I determined how I was "diversity challenged." Because I didn't realize I had some personal difficulties with differences and similarities.

Angela: One question, Curt.

Curt: Shoot.

Angela: Can you take notes for a while?

Curt: Man! I got to do everything around here. Guess I got to carry the whole load.

Angela: Here's another one. Analyze the diversity mixture. Analyze the elements of the circumstance you're dealing with. What I'm saying is, define the situation in terms of diversity mixture. What are the elements of the mixture I'm dealing with? Force yourself to consider all parts of that mixture.

Curt: Great. Make me write the long one, huh? It helped me to check for diversity tension.

Melissa: And?

Curt: And I asked myself if I was seeing tension as a result of the diversity mixture.

Melissa: And?

Curt: And if so, did I need to do anything about it?

Angela: Define diversity tension.

Curt: Well, it refers to the conflict, the stress, the strain associated with interactions of the elements of a diversity mixture. Tension often accompanies a diversity mixture. It can take on different forms or show itself in varying degrees. The real question to be considered is whether the tension requires attention.

Melissa: That's interesting. Elaborate on that.

Curt: Well, I mean not all tension is bad. Good tensions can produce new ideas, new products and processes. Tension is only a problem if it interferes with your ability to achieve organizational objectives. Counterproductive tension is usually obvious. And it can be neutral, neither good nor bad. You know, just reality.

Angela: Let's list some examples of counterproductive tension.

Melissa: Petty rivalries.

Curt: Groups sabotaging one another.

Melissa: And squabbling. That happens all the time. Is that it for "assessing a diversity situation?"

Curt: That's it!

Melissa: How about, "review action options?" Review what is currently being done to address the main problems.

Angela: That's right, and decide how well that approach is working.

Curt: If it's not working well, it's time to try something new.

Melissa: Good. Let's take another quick break. When we come back, I want to review the eight action options.

Melissa: It took me a while to process all that, so once I figured out the gist of the problem, it was essential that I review the eight action options to determine which one was best for me. So let's go through those.

Curt: Dr. Roosevelt Thomas calls it "The Diversity Paradigm." What should we call it?

Melissa: "The diversity paradigm."

Angela: It works for me.

Melissa: Curt, can you be sure to put down that these are action options?

Curt: Got it - and a system for selecting which ones you should use in certain circumstances.

Melissa: One. Practice inclusion/exclusion. How do we include?

Curt: By expanding the number and variability of mixture components in respect to attributes. Like ethnic groups, age, education or behavior, or how people act in certain situations.

Melissa: Ah, like affirmative action, where the goal is primarily to increase numbers of target-group members in the organization. Exclude by?

Angela: Exclude by minimizing the number and variability of the mixture components. So the goal is to minimize diversity by keeping the diverse elements out, or by excluding them once they've been included.

Melissa: How are you doing, Curt?

Curt: I'm way ahead of you guys. Number two. Practice denial. Minimize mixture diversity by just denying differences exist. A good example is like when organizations tell employees that their differences will in no way affect how the organization treats them. You know, like merit and performance alone will determine how far they go.

Curt: Got it.

Melissa: Number three?

Curt: Practice assimilation.

Melissa: So people can minimize mixture diversity by insisting that minority components conform to the norms of the dominant factor.

Angela: Can you put that one into English? Something like: "The minority is expected to become the majority." So it's assumed that the minority employees are going to have to learn how to fit in.

Curt: Even I understood that one. Four, Practice suppression. You can minimize mixture diversity by just removing it from your consciousness. By assigning it to the subconscious. Here differences are recognized, but simply not retained in day-to-day consciousness.

Melissa: All right, five. Practice isolation, which means including and setting different mixture components off to the side. Isolation lets you include people or other entities that are different from the dominant system, without having to change corporate culture or systems. So, a manager might isolate a new idea, giving it time to evolve and grow. The challenge is moving that idea from isolation.

Angela: For number six - how about practicing toleration. You can deal with diversity, by fostering a kind of "room-for-all" attitude, with limited superficial interaction among the mixture components. The point is, that for the sake of everyone's benefit, we can all get along, without understanding, or endorsing, or engaging each other effectively.

Melissa: Like in a company. Someone who is racially different doesn't necessarily feel discriminated against, but might not feel accepted, and valued.

Curt: Number seven would be, practice building relationships. I think it's really interesting that you can address diversity by fostering relationships. The gist is to avoid differences by focusing on similarities.

Angela: To help build relationships, we should suggest sensitivity training targeted to help people to get in touch with their prejudices and stereotypes.

Curt: Yeah, let's do that! Also team building sessions that aim to enhance problem solving.

Melissa: Good. Last one, eight.

Angela: Practice fostering mutual adaptations.

Melissa: That's right. We can deal with diversity by encouraging mutual adaptation. That's where all the components conform around the requirements, but are open to behavioral differences around non-requirements. It's only around non-requirements that diversity can be allowed.

Curt: What would be a non-requirement?

Angela: That'd be your personal preferences, non-essential traditions or conveniences.

Curt: You have to be willing to fully accommodate the entire diversity mixture and facilitate total contribution to the organization's objectives.

Angela: We should point out that this option suggests that changes may need to be made on both ends of the spectrum, in order to benefit all those involved and for the sake of the organization.

Melissa: All right, we're coming down to the end. Let's have one more break before we finish up.

Melissa: All right, what else do we cover, guys?

Curt: I've got a great idea.

Melissa: What's that?

Curt: How about if you take notes now?

Melissa: That's a great idea?

Curt: We need to give everyone some good solid courses of action.

Angela: Hey, Curt? The first thing is to understand those eight action options we were talking about.

Melissa: Of the eight action options, only one, fostering mutual adaptation, unequivocally endorses diversity. The others either eliminate or minimize diversity and complexity.

Curt: The point being?

Angela: The point is, it's not that they're inherently good or bad: it all depends on the context. In fact, they're all legitimate and all the options can be used positively or negatively.

Curt: Are you saying that there are actually times to minimize diversity?

Angela: Sure. When diversity is not compatible with organizational requirements for achieving its objectives.

Curt: Makes sense. The next step is to select a course of action. Before diving in to choosing how to respond to diversity, you need to make sure that you've done everything you can to increase your understanding about what diversity really is.

Melissa: And practice the steps under ''Becoming an Effective Diversity Respondent.''

Angela: All right, so what's the course of action you decide on?

Melissa: Well, that's the function of a couple of things.

Angela: Like?

Melissa: Like, determine your point of reference. I had to figure out whether I saw myself as part of the mixture or as set apart from it. Where I positioned myself affected my actions.

Curt: Like white males who define diversity mixtures as something that includes them. They see diversity differently from those who define diversity as external to themselves.

Angela: It makes sense. Then you really have to know your personal inclination and mind set. Inclinations, kind of like the tendency to be left-handed are learned early in life and can be really hard to change. Mind sets, or the way you feel about an issue, are more current than inclination.

Melissa: Example.

Curt: I've got one. Based on early learnings, teachings and experience, your inclination may be not to trust white males, but your mind set may be that white males are trustworthy, given that some of your current friends are white males.

Melissa: Ooh, that's good! Write that one down. Oh, that would be me. Another.

Angela: Well, I found that you have to recognize diversity in your organizational environment. Environmental factors have forced people to put diversity on their agenda and environmental factors influence the way they respond to it. So, your personal inclination can pull you in one direction, while the external environment can pull you in another.

Curt: That's good! Because change is diversity. In a complex turbulent environment, the only constancy you will have is the constancy of change. You may have to surrender your personal inclinations. Did you get that, Melissa?

Melissa: Got it. Finally, you have to assess your diversity tension. At a minimum, you have to assess nature of the tensions.

Curt: Intensity and the impact. That's the bottom line.

Melissa: Yeah, so if you notice the presence of tension and it's getting in the way of goals in your organization - I had to ask myself some serious questions.

Angela: That's exactly it! Wow, very cool! What questions?

Melissa: The answer is a two-parter. First, given your company's mission and success factors, what is the desired state with regard to diversity tension? And then, which of the paradigm's options has the greatest potential for bringing about that desired state? Boy, I ought to write that down.

Curt: Okay, let's summarize these "action options." Several factors interact to influence your selection.

Angela: Some of them are internal: our points of reference, inclinations and mind sets.

Melissa: Some of them are external. The organizational environment and the nature and intensity of diversity tension.

Angela: Depending on the circumstances, any of these factors, or a combination of them, can be dominant at any particular time.

Curt: Yeah, but no matter what your personal inclination and mind set towards these issues, sometimes external factors can block certain options from consideration. But regardless of your mind set, you're going to face diversity and you'll be affected by it.

Melissa: Well that's it for us, gang. Any other issues?

Curt: I'm hungry. I'm going to get something to eat.

Angela: Nothing for me. Over and out.

Melissa: I'm feeling really confident about our presentation and how we can have a representative workplace. Thanks, crew! Great meeting.

LESSON 9 ~ OVERCOMING YOUR OWN BIAS

Bob Rosner: There's a battle brewing on today's suburban frontier. No, it's not about gas versus charcoal briquettes. It's not even about ride mowers versus push mowers. It's about fences - stockade fences, to be specific - and which side should face the neighbors. It seems that people always used to put the ugly side in and the pretty side out. Well, no more. Now people are starting to make it so that they look at the pretty side and everyone else has to look at the ugly side. Well, neighbors aren't very pleased about this, and they're screaming "visual discrimination" across manicured backyards. Well, this is pretty similar to the battle going on in many workplaces today, really. Examine your personal attitudes. Whether we like to admit it or not, we all have leanings. You know, there's people for whom we're just not that comfortable being around. Now, there's the regular suspects of bias - people with a different skin color, people of a different age, people with a different religion. But there's also more off-the-beaten-path forms of bias - a person who reminds us of somebody we don't like, a grating personality or someone who lacks our lofty status. Whatever the cause, it's important to take the time to learn your biases and then learn how to deal with them so we can act more fairly with all of our colleagues. Learn from your own behavior. Do you go out of your way to help certain employees, while there's others that you hinder or even overlook? Look at the people that you've promoted, reprimanded, even skirmished with and look for a pattern other than their behavior to explain your actions. Make the commitment to change. Once you've identified your leanings, commit to remedying them, and force yourself to look a second time at actions to be sure that you're judging people on what they've done and not how you feel. And get other people's opinions before you take action on anyone who's in your blind spot. This is the only way to ensure that everyone gets a fair shake. Biases develop over many years. Don't expect them to go away overnight. Don't give up. If you take your time and you learn your biases and you learn how to minimize their impact, you'll put your best side out and none of your colleagues will feel like they're fenced in a stockade.