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Training Agenda

Partners in Finance Training

HR must forge partnerships with CFOs to improve the financial literacy of employees.

By Eric Krell

Tough regulations and tough business competition are compelling finance executives to explain to the rest of their organizations precisely how their companies earn and account for revenue.

While the corporate finance and accounting functions drive the training and communication initiatives that stem from a business need for financial literacy or from regulatory mandates—such as the Sarbanes-Oxley Act, which affects publicly traded companies in the United States—these functions need HR's help.

ILLUSTRATION BY PAUL ZWOLAK

Certainly, finance, accounting, and internal audit executives and managers are the subject-matter experts in these educational thrusts, but HR can provide assistance in selecting training formats and tools, delivering the training, and understanding the impact of such initiatives on processes and productivity throughout the organization.

"Finance people generally do not have a keen understanding [of] how to accommodate various learning styles," says Steve Wagner, managing partner for Deloitte & Touche LLP's U.S. Center of Corporate Governance in Boston. "A finance organization that tries to create a learning experience for a substantial cadre of employees without assistance from human resources is making a mistake."

By contrast, organizations whose human resource and finance functions work together to meet the new demand for financial and compliance training are starting to realize valuable returns on their investment in collaboration.

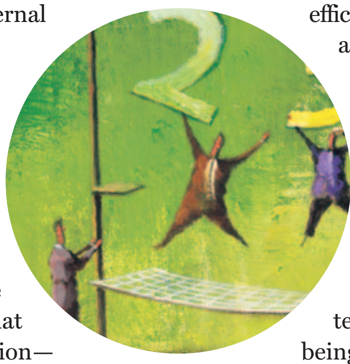
A Risky Business

Sarbanes-Oxley has driven the need to educate a large number of nonfinance employees about risk management, finance and internal controls.

In fact, John Hagerty, vice president of research at Boston-based AMR Research, expects U.S. companies to spend $27.3 billion on compliance this year. By far the largest portion of that sum—about $11.5 billion—will be spent on people in areas such as hiring and training and on higher compensation for experts.

"Even with all the whiz-bang technology and consultants that are available, the single largest [compliance] expense is people," Hagerty says.

When Hagerty asked companies to identify their largest compliance challenges, Sarbanes-Oxley topped the list.



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"Training has become a huge compliance issue," says Hagerty, who adds that one key aspect of such training is helping employees understand exactly what it means to be "in compliance" with all regulations applicable to the company. Those responsibilities should be contained in specific policies and procedures related to employees' current roles and responsibilities.

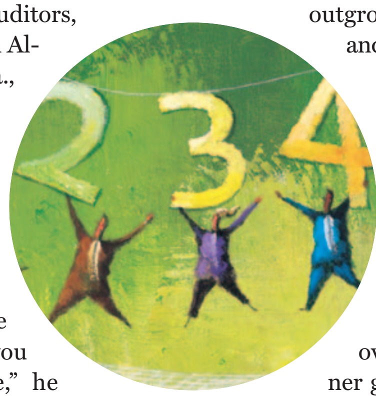
For example, an accounts payable clerk may need to know that any invoice over, say, $5,000 needs to receive signed approval from the department head. Or, a sales associate may need to be trained in the finer points of revenue recognition—assigning a sale to the correct date under accounting guidelines.

Those sorts of policy adherence represent compliance with the internal controls requirements contained in Section 404 of Sarbanes-Oxley. To make Section 404 compliance more efficient, finance and internal auditing managers are turning over responsibility for monitoring and assessing internal controls to the nonfinance managers responsible for processes that contain those controls.

The bulk of that internal controls training is being conducted, however, by internal auditors or finance managers, who typically do not have the skills to transfer their knowledge as effectively as possible.

Nor do they have the time. Many internal audit departments are buckling under excessive workloads that include compliance and internal controls training as well as spotting risks and opportunities for process improvements, which is not what they signed up for. That could hamper recruiting and retention efforts in an already tight market for internal auditors.

Dave Richards, president of the Institute of Internal Auditors, an association based in Altamonte Springs, Fla., sees a need for human resources to develop internal controls training classes for nonfinance managers. "That is highly desirable because that's how you make this process work—you have to train people," he says. "Internal control would apply to a wide variety of folks, but not everyone. The main focus would be in the management ranks and on individuals who are monitoring controls for their areas. ... I can envision a course that would be generic and intuitive enough so that people can see how internal controls 'apply to me.' "



Mandates for Collaboration

In response to Sarbanes-Oxley, San Diego-based Sempra Energy, an energy services company, rolled out a financial literacy workshop to its board of directors in October 2003. Neal Schmale, executive vice president and CFO of Sempra, sought input from his HR function in selecting an outside consultant to lead the three-day classroom sessions. During the past two years, the company has provided the workshop to 200-plus top managers—and then to all employees in the organization.

"The financial literacy workshop is part and parcel of a larger organizational psychology issue, which is that good decisions are made in an environment where constructive dialogue and constructive dissent flourish," Schmale says. "It's critical that any governance group have a healthy understanding of what goes on in an organization. And this workshop also fits into our thinking that training is a critical part of any compliance program."

Sempra Energy's finance, compliance and HR functions have long worked together to design and deliver training related to specific rules and rule changes in the highly regulated industry and in the state of California. Schmale describes the financial literacy program as a natural outgrowth of that focus and collaboration.

On the Same Page

Faced with the challenge of developing a methodology to help finance executives comply with the Sarbanes-Oxley Act over the long haul, Wagner got input from Michael Fuchs, a principal in the Human Capital Practice at Deloitte Consulting.

"It was critical and obvious to us that the human resources side of the equation was so important to the ultimate success of any compliance program that there was no way that the finance folks could do it by themselves," Wagner says.

Wagner and Fuchs identified several questions that HR managers can ask to get a reading on existing compliance training efforts and then improve on them:

- **Do our people really get it?** Direct this question individually to the finance and internal audit functions. Finance is responsible for ensuring that internal controls are operating effectively, while internal audit is responsible for monitoring the controls. Incongruent responses signify room for improvement and a starting point.
- **Who develops and delivers compliance training?** Most of the compliance and compliance training efforts are handled by external resources—finance consultants and/or internal audit vendors. Those approaches may be effective, but they typically are not cost-efficient over the long haul. HR also can strengthen the training process by identifying which finance and internal audit managers—the subject-matter experts—are the best teachers.
- **Are these learning processes replicable?** Managers and employees responsible for managing internal controls routinely move on and are replaced with new people. Can the knowledge transfer be sustained during these typical changes? And can the training effort be incorporated into an existing learning center or corporate university to make the process more efficient?

Apples and Oranges

Even for companies that aren't facing compliance mandates, it still makes economic sense to provide financial literacy training to employees. Indeed, rough marketplace conditions, rather than new regulations, brought the finance and HR functions of Vermeer Manufacturing Co. into partnership three years ago.

Based in Pella, Iowa, Vermeer manufactures agricultural, construction, environmental and industrial equipment for customers in several industries, including telecommunications. When that sector tanked a few years ago, Vermeer accelerated its move toward open-book management so that employees could better understand how they influence the cost structure and revenue streams that determine financial performance.

In 2003, Debra Smith, Vermeer's manager of training and development, and Controller John Koolstra teamed up to create a financial training camp for all employees. The two selected a business simulation tool, Celemi's "Apples & Oranges," and Koolstra and four of his finance managers rotated co-leading sessions with Smith.

"We both brought different areas of expertise to the table," Smith explains. During the process of selecting the training materials, Smith evaluated whether the learning program's model was effective from a training and development perspective. "However," she adds, "we could not look at the program and assess if it was a good match for Vermeer's finance function, which is why we needed to collaborate on this decision."

Before he began leading the "Finance 101" sessions, which walk participants through Vermeer's balance sheet, cash flow statement, and profit and loss statement while showing them how their activities affect the numbers on those scorecards, Koolstra got training for himself. He took Smith's "Facilitating Adult Learning" class, which he describes as "very helpful" in strengthening his facilitation skills and techniques.

Smith and Koolstra say the Finance 101 sessions proved successful as a first-run initiative, but more was needed. "The most common comment we heard from managers was, 'This is great, but we need to understand more,' " Smith reports.

Based on that feedback, she and Koolstra's department used the Apples & Oranges program as the foundation for a more involved "Finance 201" class for nonfinance managers in 2004 and 2005. That course, which follows the flow of capital through Vermeer's manu-facturing cycle and requires participants to assemble their own balance sheets, concluded in December.

The 203 managers who took the class walked away with a homework assignment: implement the improvements that they had identified during the training sessions.

"The class makes clear that those individual 'action plans' are not just about improving isolated processes," Smith notes. "They are about improving the bottom line of our business."

The HR Effect

At the very least, HR can work with finance and internal audit to limit the negative side effects of communication and training "efforts" that often veer closer to "mandates."

For example, Jane Weizmann, strategic rewards practice leader for Watson Wyatt Worldwide, who is based in Arlington, Va., worked with a client company whose HR function spotted a problem with the implementation of

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new billing and recordkeeping rules related to Sarbanes-Oxley. The finance department sent out a batch of forms and checklists and required that the sales force complete the paperwork each month on a specific date.

After noticing that its salespeople were tethered to their desks rather than producing, the HR function proposed adding a business manager to support the sales teams and laid out a staggered schedule for filing the billing paperwork. The recommendations were accepted.

"Leading HR is highly sensitive to productivity, which is reflected in the bottom line," says Weizmann. "HR is very much aware of what the workforce does and how they do it. That's not finance's role. Looking at work processes and how compliance mandates can be woven in most effectively—that's the collaboration point between finance and HR."

Initially it may be tough to convince finance and internal audit to step back from their compliance and communication mandates and reflect on the most effective way to share knowledge without disrupting productivity. But once they understand the bottom-line impacts of flawed training efforts, Richards says, they tend to be quick studies. HR

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