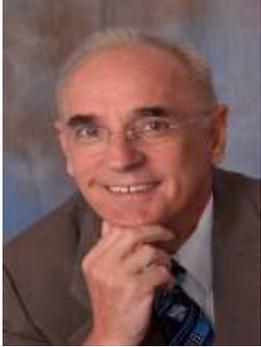


Is there a Financial Intelligence? What does it mean for Business and for Talent Management?

Is there such a thing as financial intelligence? If there was, it would revolutionize the study and the practice of business. Our research shows that there is such a thing, that we can identify, describe, measure and develop it and that this has measurable business outcomes in terms of enterprise profitability and valuation. This has major implications for leadership development and talent management, to mention just two areas.



Author Dr. E. Ted Prince
Founder and CEO of
Perth Leadership Institute

Idiots Savants and PhDs?

Traditionally psychologists defined intelligence as IQ, the intelligence quotient notably popularized by Binet and others. These days it is recognized that IQ is but one measure of intelligence, broadly defined. The working theory is that there are multiple intelligences, each of which is separate and defines a different form of cognitive performance. Thus we can talk about emotional, artistic, and kinesthetic intelligence. But no one has even identified an entity such as financial intelligence. Yet if these others exist, why should not financial intelligence?

Popular lore identifies and discusses capabilities that could well be seen as direct reflections of financial intelligence. These include business acumen and a nose for profit. We sometimes talk of a person being a "financial genius". Thus

the popular wisdom acknowledges something that would be like financial intelligence. It's just that the academics and psychologists haven't caught up yet since they are usually not in a position to have direct, as distinct from indirect, experience of it in the field in a real business.

Top-Rated Lemonade Stands...

What do we know about this financial intelligence? Firstly, it can't be taught, either in business school or anywhere else for that matter. Interestingly, the wisdom of the streets is that, generally, most learned people don't have it, while some untaught (but not unlearned) people do. There is no doubt that only a few people have it. But the vast majority of people don't.

But this side of cognitive functioning has never been studied because the psychologists who developed learning and personality theory were never business people themselves. On the practical side of things, business people generally never got around to studying the psychology of financial behavior because they were too busy actually acting it out to have the time to study it.

"What do we know about this financial intelligence? Firstly, it can't be taught, either in business school or anywhere else for that matter."

Rationality so Passé...

Until now the nearest anyone has ever got to identifying financial intelligence has been the behavioral finance academics. These study the impact of behavior on financial and economic outcomes.

The behavioral economists and behavioral financial academics particularly take into account the fact that the traditional assumption of classical economics – that people make economic decisions rationally – is simply

not true. They incorporate into their models the relaxing assumption that most people make decisions under conditions of what is called "mixed rationality"; that is acting partly rationally and partly non-rationally.

However these theories of financial behavior have had a sociological rather than a psychological focus. They have focused on the group implications of mixed rationality in financial behavior but never brought their focus down to the single individual and his or her psychology as an individual. Yet it is only at that point that we can start to formally identify and measure financial intelligence.

Yet Another IQ...

That is where the work of the Perth Leadership Institute comes in. Our research shows that we can identify a specific financial intelligence at the level of the individual. We can formally model that intelligence, measure it, and show what its impacts are on the financial performance of the individual and the teams and units of which he or she forms a part. Some of this work is set out in my book **The Three Financial Styles of Very Successful Leaders** (McGraw-Hill, 2005) see <http://www.amazon.com/gp/product/0071454292>.

Rather than use yet again the shop-worn sobriquet of IQ, we decided to go with another term, the financial signature of an individual. This identifies the type and level of business acumen possessed by an individual. The measure is 2-dimensional rather than a simple linear score. Essentially it measures financial intelligence.

We measure financial intelligence using online assessment instruments. The instruments also measure the actual financial behavior of an individual and show how this differs from their innate financial behavior. These show whether the individual or team is likely to under- or out-perform other people in terms of creating profits and higher market value. Our instruments also measure the financial signature or culture of an organization and reveal what the type of financial culture means for the ultimate market value of the company.

"...we can identify a specific financial intelligence at the level of the individual."

Dumb Luck and Financial Intelligence

Our work comes up with some surprising and, for many, counter-intuitive conclusions. High IQ does not correlate with high financial intelligence; in fact the reverse is more likely to be the case. The possession of a higher degree or an MBA is not correlated with high financial intelligence. In fact business outcomes may be worse with an MBA because the holder incorrectly assumes that they have high financial intelligence and this over-confidence leads to rash financial decisions – just as in the current subprime crisis.

The concept of financial intelligence has some revolutionary implications for business. If it is correct, we are routinely selecting the wrong types of people as leaders and managers, which is probably why we get recurrent market crises such as is the case right now.

Secondly we have completely the wrong development regimes and programs for managers and emerging leaders, since we are measuring and managing the wrong things.

Third, our business education both at university and in business is based on the wrong skills since we are confusing business literacy and business acumen, which are completely different things. We routinely select for business literacy, which is not the same thing as business acumen and therefore suffer the consequences when holders of these often-atmospheric qualifications, apparently unaccountably, fail to deliver the right P&L results.

Backing Multiples

So what does this all mean for the theory of multiple intelligences? Well, our work supports and extends it even further. It shows that that glorious entity called the human psyche is even more multi-faceted and powerful than we had imagined. Not only does it have some far reaching capabilities in the analytical, emotional, artistic and kinesthetic areas, but it also has unsuspected abilities in the strictly financial area that also differentiate us as beings and people.

Humans also have a specific intelligence that comprehends the financial and economic. Once we harness the abilities comprehended in this newest form of intelligence, we can leverage it to improve our lot both as individuals and societies.

But first we must recognize the existence of this new set of capabilities. Don't let's ignore them as we successively did when IQ first emerged, or when others of the multiple intelligences appeared. Let's recognize that we have found yet another facet of human ingenuity and power and, moreover, that it is unlikely to be the last.

Changing the Leadership Development Paradigm - Now

The theory of financial intelligence has far-reaching implications for talent management, leadership development and HR in companies everywhere. For a start, it implies that in using traditional personality and competency assessments to improve business outcomes and results, they have been barking up the wrong tree.

Traditional personality and competency assessments are simply measuring the wrong things so they cannot help improve business outcomes from a strictly financial perspective. That is not to say they might not improve other outcomes such as the quality of leadership and team functioning.

But we cannot confuse leadership with business outcome, as is usually the case right now in leadership development and talent management programs. This implies that most leadership development programs are simply not using their money wisely, or at the very least, claiming wrongly that they lead to results of which they simply are not capable.

“Traditional personality and competency assessments are simply measuring the wrong things so they cannot help improve business outcomes from a strictly financial perspective.”

Hints and Recommendations

- Start up a business acumen program now.
- Incorporate business acumen into talent management and selection mechanisms.
- Implement business acumen components into leadership development programs.
- Educate HR and talent management in the concept of financial intelligence.

.....

For more information on the Perth Leadership institute and Perth upcoming events, please visit us at: www.perthleadership.org

Perth Leadership Institute: 100 SW 75th St, Suite 107 - Gainesville, FL - 32607 LeadershipInfo@PerthLeadership.org
Telephone: 352.333.3768 **Fax:** 407.540.9479

To subscribe to Perth Leadership Institute, send email to: subscriptions@perthleadership.org.

If you would prefer to receive this newsletter in text-only format, please [contact us](#) with your request.

To unsubscribe, send email to: unsubscribe@perthleadership.org.

Copyright Perth Leadership Institute 2007
All Rights Reserved. Articles may not be copied or reproduced without the permission of the Publisher.