Numbers Tell Stories

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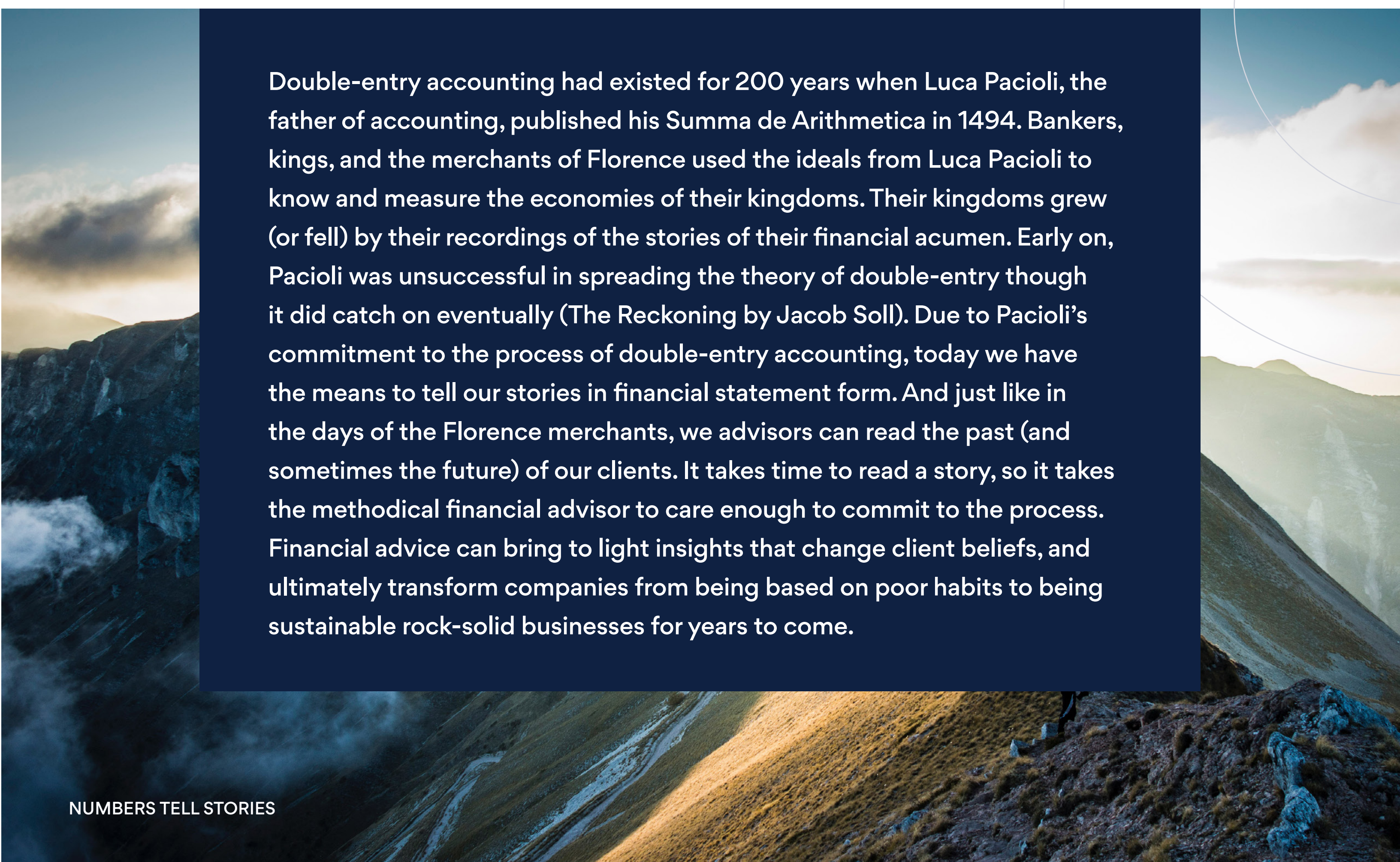
Stories are powerful. They remind us of truths in ways we never forget. Stories bring out our emotions and challenge our minds. Using stories to tap into these parts of our human psyche, we can learn things in deeper ways, mature over time, and grow healthier as humans. I believe the power of stories can change any person in any setting. Entrepreneurs and business leaders need these human interactions as well.

This may sound cliche, but the numbers in financial statements tell stories. Numbers are simply the result of many actions, decisions, behaviors, and also the non-actions taken by small business owners. The numbers in financial statements always tell the story of what the entrepreneur was doing in the past. Numbers don't lie, as they say. This truth of the power of stories embedded in numbers can produce immense wisdom and transformation for the small business owner. Embodied in a well crafted and maintained set of financial statements, the financial advisor becomes a guide for their client as they point out what their beliefs and behaviors are producing in the form of consistent profit or loss.

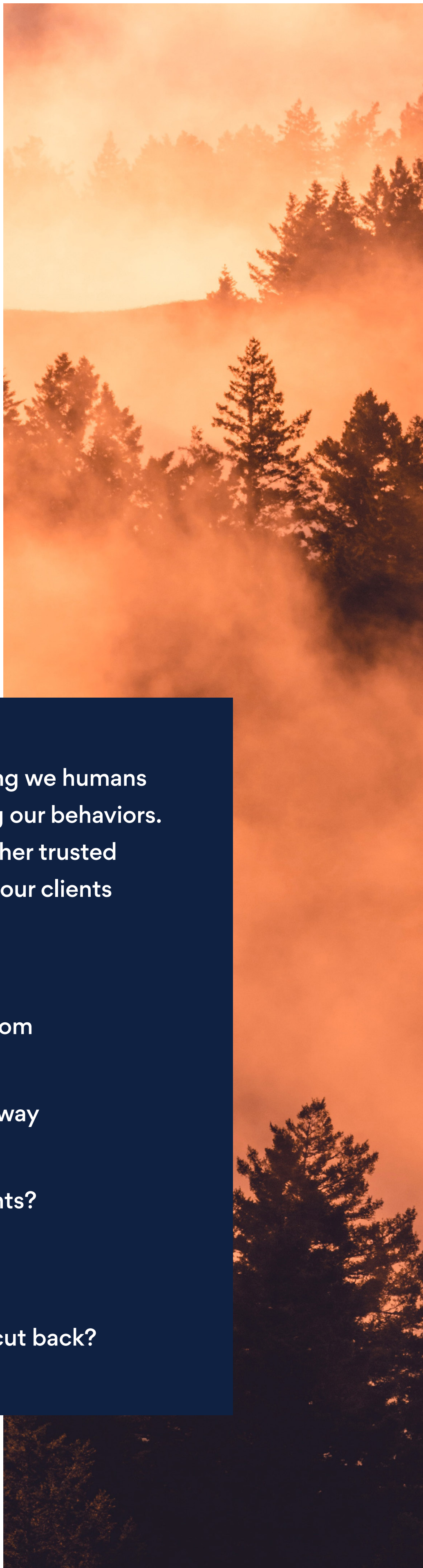


Double-entry accounting had existed for 200 years when Luca Pacioli, the father of accounting, published his Summa de Arithmetica in 1494. Bankers, kings, and the merchants of Florence used the ideals from Luca Pacioli to know and measure the economies of their kingdoms. Their kingdoms grew (or fell) by their recordings of the stories of their financial acumen. Early on, Pacioli was unsuccessful in spreading the theory of double-entry though it did catch on eventually (The Reckoning by Jacob Soll). Due to Pacioli's commitment to the process of double-entry accounting, today we have the means to tell our stories in financial statement form. And just like in the days of the Florence merchants, we advisors can read the past (and sometimes the future) of our clients. It takes time to read a story, so it takes the methodical financial advisor to care enough to commit to the process. Financial advice can bring to light insights that change client beliefs, and ultimately transform companies from being based on poor habits to being sustainable rock-solid businesses for years to come.

Two Particular Aspects of Number Stories

Owner Beliefs. It's important to understand that financial numbers are simply conclusions to an owner's beliefs working themselves out through their behaviors. We often think our beliefs lead to intentional decisions but that is not true for many business owners. Many business leaders and entrepreneurs fail to be strategic and purposeful with their decisions. And that comes from inaccurate beliefs that lead to unintentional behaviors. So really, financial statements are made up of all of the decisions, whether intentional or unintentional, that an owner has made in the past. And beliefs, whether we realize it or not, are what drive our actions. Few stop to address, question, or analyze their beliefs. We just move through running our businesses with the assumption that what we are doing matches what we want our business results to be. But humans are great at fooling themselves. If owners continue to fool themselves, then they will consistently display financial numbers that are not what they had hoped they would be, yet fail to understand why.

Owner Behaviors. Owner behaviors will always be displayed in the financial results of the operations of the business. Think about it: financial statements are the culmination of all of the decisions that were NOT made by a business owner. Only the decisions that were positively acted upon are recorded in the financial statements. So if a client is consistently showing a sustainable profit over time, then they are masters of cutting out the negative decisions from their lives. Keeping poor decision making out of our financial results is one of the hardest things for entrepreneurs to do. And when it does happen, it takes a shrewd advisor to spot the display of the poor behaviors in the financial statements. When advisors see the poor behaviors, say something to the client in a relationship based on trust, then the advisor is a party to the success of their client. That is a power not afforded to most professions. We just need clients who will listen to us.



Questions from consultants and coaches can be the very thing we humans need to see the connection of how our beliefs are influencing our behaviors. It's difficult to see this connection on our own, so we need other trusted objective people to help us. Here are some questions we ask our clients to help them see their stories more clearly:

- What do you hope your business looks like in 2 years?
- How do your financials represent ways that look different from what you anticipated?
- Can you describe an aspect of your financials that look the way you intended? What did you get right?
- What is your biggest concern about your financial statements?
- What is the most encouraging part of what you see in your financial statements?
- Where should you spend more money? Where should you cut back?

Advisory Principles on Numbers Tell Stories

Principles are the truths entrepreneurs, consultants, and advisors live by. They are signposts of our past learning, and places we can go to when we get lost. Ray Dalio, author of Principles says “Principles are what allow you to live a life consistent with your values. Principles connect your values to your actions.” Advisory Principles are crafted statements of how and why advisors do what they do.

Let’s explore four Advisory Principles on Trends and Patterns.

PRINCIPLE #1:

Experienced advisors take time to learn about the owner behind the financial statements.

We've already discussed that it is people, particularly entrepreneurs, that create financial statements. They have the power to make choices that are ultimately displayed in a set of financial statements. So it stands to reason that if you want to understand your client's financial data more accurately then you want to seek to get to know your clients more personally. Knowing the client's family, their personal interests, their retirement goals, their hobbies, the goals for the business, their past work history, etc. all give you a greater context as their advisor to suggest effective financial paths, what decisions to make, and what pitfalls to steer clear of. Take time at the beginning of each meeting to ask how their weekend was and what they are planning to do for the upcoming holidays. You'll be amazed at all that you learn.Truly, being narrow with your data is a risk but it is also a necessity for the advisor.

PRINCIPLE #2:

Experienced advisors teach their teams to probe into behaviors and beliefs of clients with well-crafted questions.

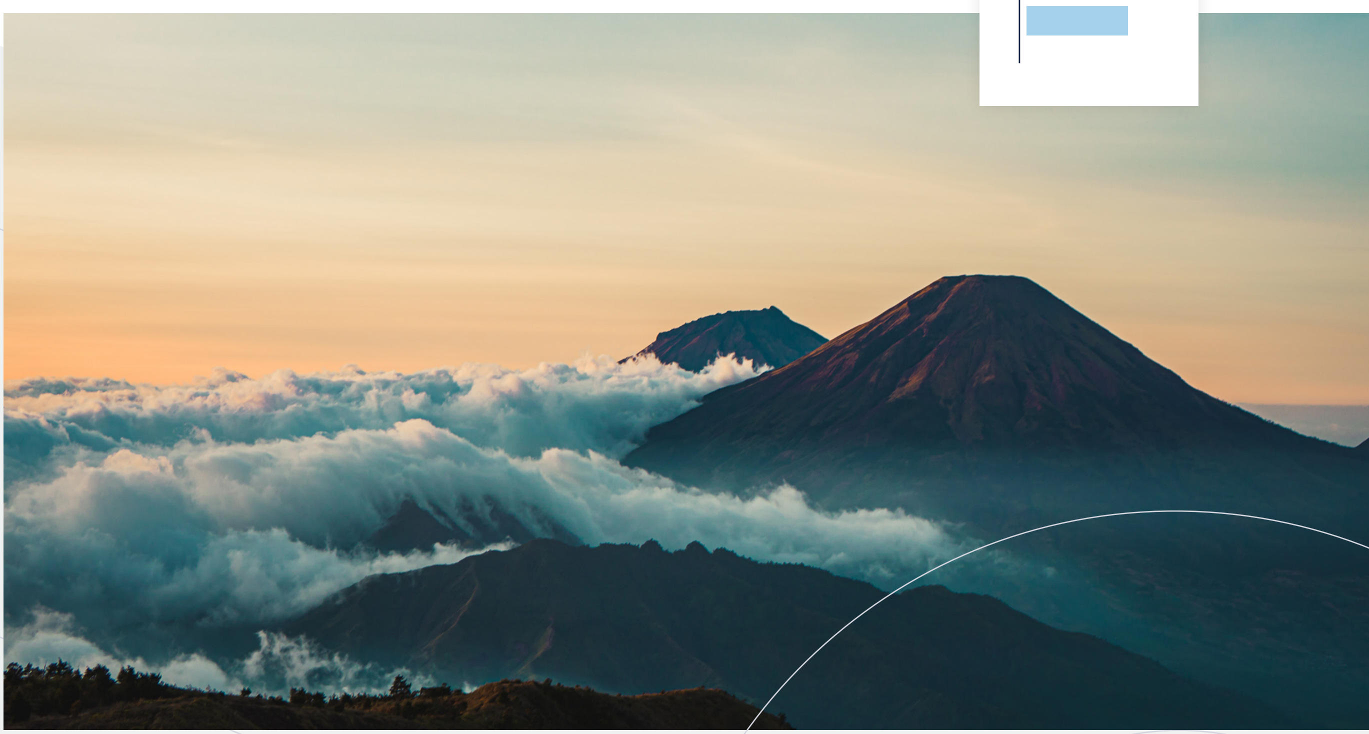
We've learned that owner beliefs are what drive owner behaviors. Then the outcomes of these behaviors are what show up in the financial statements. But your team may not know this. The team performing some of the advisory services in a firm may have a technical background with no experience of how to probe with questions. It takes an experienced advisory leader to teach teams to question clients. The best questions: (1) are specific in nature and (2) question assumptions. Broad questions like "how was last month?" doesn't help a client answer in a particular way that transforms them. Instead, a question like "Is there 1 thing you did differently this month in sales that moved your business forward towards your goal?" gives more information to the client to form a specific answer. The client will begin to search their mind for that 1 thing, and the result will be greater learning. Similarly, questioning assumptions that clients make in financial meetings like "This month was a bad month" helps clients overcome wrong beliefs that they tell themselves. Advisors teach their teams to listen for client assumptions and then challenge them with specific questions like "can you tell me what you think went poorly this month?" or "in addition to this being a bad month, was there 1 good thing you can think of that happened this month?"

In our firm, we call our financial advisory meetings "Growth Conversations." This label signals to the client that we will be having conversations, not simply showing them numbers in an accounting system. Further, we sell these growth conversations separately from the production of monthly accounting. Clients may purchase accounting services from us, but they purchase 'Growth Conversations' separately. These conversations are meetings our teams prepare for, prepare questions for, provide agendas to the clients to walk through, and are meetings we prepare our team to be able to ask specific questions in. These are meant to be conversations so we want our team to collaboratively speak with the client so that they understand the financials in more transformative ways.

PRINCIPLE #3:

The strategic display of financial data reveals the beliefs behind the behaviors.

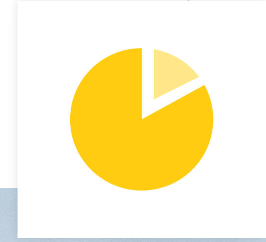
Accounting systems are not necessarily built to be transformative. Accounting systems are foundationally necessary to accurately report financial data in a timely and consistent way. Wise advisors add an integrated companion advisory product to their accounting tech stack to deliver more strategic displays of financial data. An integrated advisory companion product like Fathom allows a professional to chop up, dissect, segregate, benchmark, and display seemingly non-related data beside other ancillary data. This creative display of seemingly banal financial information gives the advisor the leg up on seeing the client’s beliefs embedded in their numbers. A column of numbers that stand alone may not mean as much as that same data displayed beside columns of other ‘financial stories.’ Once the comparisons are made, then the stories begin to reveal themselves, allowing the advisor to ask more probing specific questions that reveal the beliefs driving the financial story.



PRINCIPLE #4:

Clients can not strategically display their own data in ways that reveal stories.

Related to the previous principle, it is important to point out that clients can not display their own data in creative ways that allow them to read their financial stories. This is the realm of the advisor. The client is in the details of their work and business. They don't stand above it all with objectivity to then review and assess their own financials. Just like people don't counsel themselves, but find an objective safe counselor to guide them; so also clients need an objective advisor with the skills to approach the strategic display of financials in ways that reveal stories with serious impact. It is the role of the advisor to take in the education and training necessary to look objectively at other entrepreneurs' financial stories, to ask questions that change people, and remain in relationships that benefit the client who can not help themselves in this way.



A client of ours had struggled to pay their taxes every year. They couldn't understand why they kept showing profit when they never seemed to have enough cash (especially for their 'surprise' taxes every year). The answers to these stories can often be found in the Shareholder Distribution equity category on the Balance Sheet. We looked there to see ongoing, expensive purchases for racing bikes, bike equipment, biking gear, and biking trips. That's where the money went - into our client's biking passion. He spent his taxes on bicycles, racing gear, and bike trips to the mountains. He believed that his business was meant to fund his passion. We shared with him that those personal expenditures should fit into the salary he takes home from his business, not as undefined or unplanned cash distributions funding a passion. Whether the client changed or not is not the full responsibility of the advisor, rather speaking the truth about the stories revealed by this client's beliefs is what is most important.

ABOUT
Jason Blumer

Jason founded Thriveal in 2010 as a way to help entrepreneurial CPA firm owners connect, learn, and grow. He serves as the Visionary and CEO of Thriveal, and his partner Julie Shipp serves as the Integrator and COO of the organization. Since 2010, Thriveal has helped many small firms grow by providing a community, coaching services, webinars, firm consulting, monthly growth groups, and live events. Deeper Weekend is the annual live event by Thriveal, now in its 10th year.

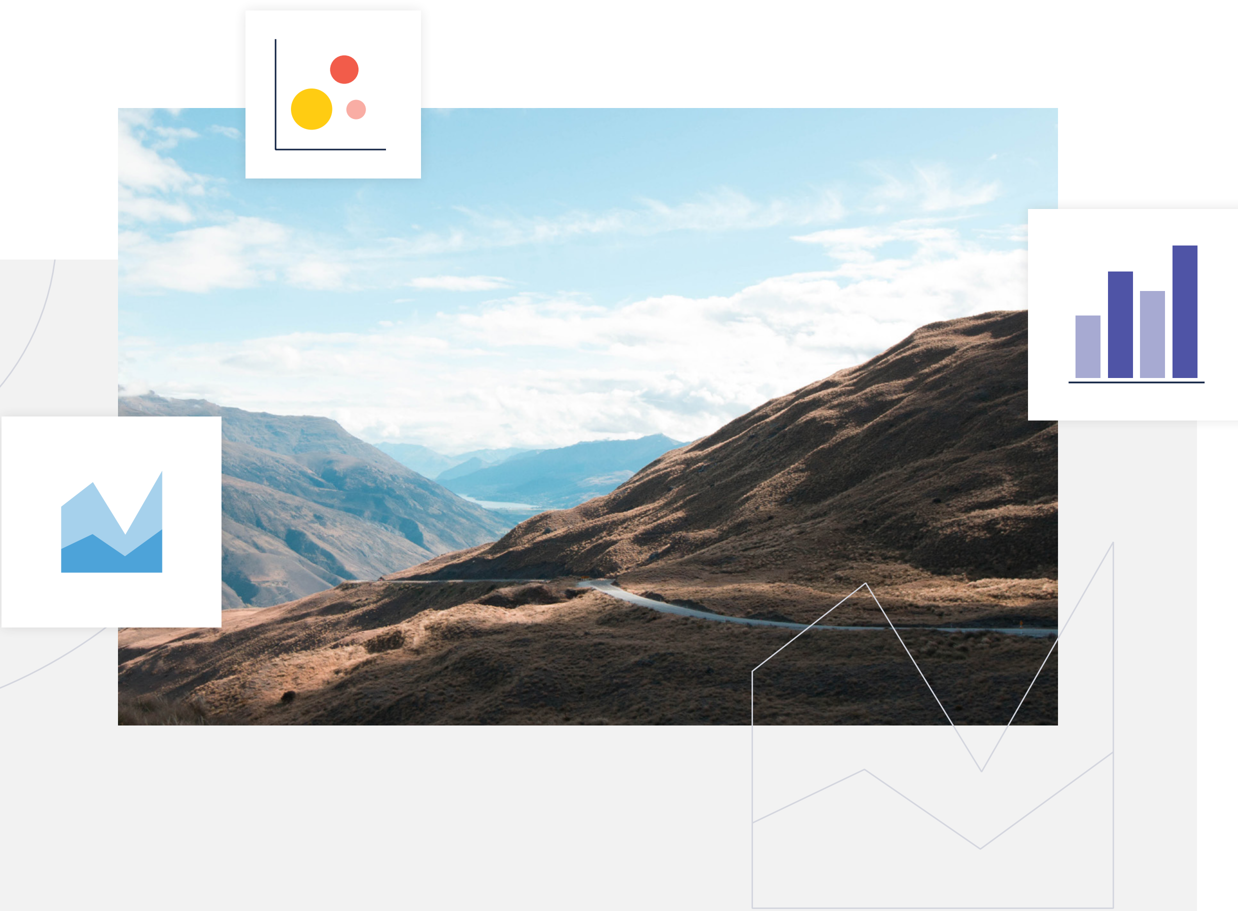
Jason is also the CEO of Blumer & Associates, CPAs. The firm was one of the first to move from a traditional office to a virtual environment in 2012, where they serve as an advisory firm for the design, marketing, and creative agency services niches. He and his partner focus on business consulting and coaching with the owners and partners of firms and agencies, while their team meets the technical and financial compliance needs of the customer.

Jason is the co-host of two podcasts, the Thrivecast (since 2011) and The Businessology Show (since 2013) and speaks and writes frequently for the financial and creative industries. He has been honored as one of the Top 100 Most Influential People in Accounting (Accounting Today).

ABOUT
Fathom

Fathom is transforming the way people create beautiful management reports and access timely business insights. We've helped thousands of advisors and business owners around the world to gain the valuable insights they need to make better business decisions.

With Fathom, you get a full suite of in-depth analysis, reporting and forecasting tools that help you see exactly how well your client or business is performing. You can monitor trends, design forecasts, and identify improvement opportunities quickly and easily. For more on what you can do with Fathom, and to try it for free for 14 days, visit fathomhq.com.



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