

# How financial education makes you a better manager

## Written by

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[Finance](#)

## Key topics

[Education and Learning](#), [Finance](#), [Leadership](#), [Management](#)

**Finance leaders play a significant role in providing insight and commercial support to drive sustainable decision-making. Many top executives come from a financial background and even more seek to increase their finance capabilities and bring a broader external market focus to support the strategies of their businesses**

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A survey by recruiters Robert Half found over half of FTSE 100 CEOs had [a background in finance](#). This suggests an understanding of finance is greatly valued as a leadership trait across all industries.

While some will have undertaken [master's degrees in finance](#), executive education programmes in finance, such as [those offered by Imperial](#), are frequently sought out by senior executives wanting to step up to board or senior management positions. I led a study into the impact of a similar programme and found that, not only did it increase executives' financial competencies, but it also led to improved firm financial policies and performance.

## Measuring the impact of executive education

In collaboration with Dr Diogo Mendes from the Stockholm School of Economics and Professor Daniel Metzger from the Rotterdam School of Management, I explored how an 18-hour corporate finance executive education programme impacted executives' performance.

Between June 2015 and April 2019, we conducted a study involving 93 executives in Mozambique's capital, Maputo. Most participants were leaders of medium and large-sized organisations with more than 40 per cent educated to master's level or above. We compared the financial practices and performance of executives who had completed a finance executive education programme, delivered by Imperial, and those who were to complete the same programme only at a later stage.

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Our study made three particularly striking conclusions:

#### **1. There is a link between the financial skills of leaders and the financial techniques they use at work**

We wanted to establish if there was a link between an executive's knowledge of finance and their confidence in implementing financial decision-making techniques. To do this, we surveyed the financial background and financial techniques employed by participants before the executive education programme was delivered.

Our survey found executives without a finance background were less likely to use techniques to compare and evaluate potential financial returns from investments

(such as net present value) and less likely to use techniques used to model how financial uncertainty might affect a business (such as scenario and sensitivity analysis).

## **2. Executives changed their companies' financial practices as a result of attending the executive education course**

We also wanted to measure the impact of the executive education programme on the participants' financial practices. We surveyed participants after the programme to find out whether it had changed their approach to determining company financial policies.

First, we asked if participants intended to change their financial practices to improve the operational efficiency and financial health of their companies as a result of the course. Most stated they intended to adjust how their organisation managed working capital (the policies that ensure a company has sufficient resources to meet its short-term operating costs and short-term liabilities) and risk management policies (how a company decides on and monitors financial risk).

Furthermore, 42 per cent said they would adapt their valuation techniques (the techniques they use to decide whether an investment will deliver financial value for the company) and almost half responded they would update their capital structure (how their company is financed and particularly the balance between debt and equity) as a result of attending the programme.

It was also very rewarding to find many of the executives followed through with their intentions to make changes.

We interpret these results as participants gaining from the programme the confidence and knowledge to change their approach to financial decision-making.

## **3. The overall performance of the companies led by managers who had attended the executive education programme also improved**

Finally, we wanted to see if investing in developing leaders' financial skills could improve company performance as a whole.

We focussed on two commonly used measures of company financial efficiency: return on assets (ROA) and return on invested capital (ROIC). These show how

efficient a company is at earning income given the amount of assets it has, and the amount of money invested in the company.

Analysing financial statements throughout the study, we found the companies led by executives who had been on our course saw greater ROA and ROIC performance than control firms. With our research design, we were able to rule out other factors that can lead to improvements in these measures. We concluded the improvements we observed in company performance were most likely a result of the companies adopting different financial policies, such as funding growth in more effective ways.

This finding suggests company performance as a whole can be improved by investing in the financial expertise of senior executives.

### **What this means for managers and leaders**

Our results show relatively short and low-cost interventions, such as executive education courses on corporate finance and risk management, can improve executive financial decision-making.

Executive education short courses may therefore benefit experienced executives who are seeking to advance their careers by gaining greater confidence in making financial decisions.

*This article draws on findings from [“The Impact of Financial Education of Executives on Financial Practices of Medium and Large Enterprises”](#) by Claudia Custodio (Imperial London), Diogo Mendes (Stockholm School of Economics) and Daniel Metzger (Erasmus University Rotterdam).*

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## About Cláudia Custódio

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Cláudia Custódio is Professor of Finance at Imperial Business School and a research associate for the Centre for Economic Policy Research, the European Corporate Governance Institute, and the Financial Markets Group at the London School of Economics.

Prior to joining Imperial London, she worked at Nova School of Business & Economics in Lisbon and Arizona State University. Professor Custódio's research interests are mainly in corporate finance, including corporate diversification, mergers and acquisitions, capital structure and risk management.

Read [Cláudia's Imperial Profile](#) for more information and publications.

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