

WHITE PAPER

# **Business Acumen: An Experiential Approach**

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Forward looking organizations are discovering that a high degree of business acumen among the management team is a powerful source of competitive advantage.

## Clarifying Business Acumen

According to several recent studies, including a SHRM survey, Business Acumen has been identified as one of the critical competencies needed by leaders over the next decade.

Given the increased complexities resulting from globalization, rapidly shifting markets, technological advances, the internet, a fluid workforce, and geo-political threats, organizations recognize the need to have leaders with the highest level of business skills and judgment. Moreover, organizations are currently challenged to find new outlets for competitive advantage. Traditional sources of competitive advantage such as product superiority, brand dominance, and pricing are more difficult to sustain in a global market where products and services are increasingly commoditized. Thus, newer forms of competitive advantage are emerging, including the ability of the management team to efficiently and effectively operate in an ever increasingly complex, and competitive marketplace.

Despite this overwhelming consensus that business acumen is an essential competency needed by managers and leaders, there is limited consensus as to what business acumen actually means. Both business leaders and academics have attempted to capture the meaning of business acumen within brief, over-arching definitions. For example, in his publication, *What the CEO Wants You to Know*, Ram Charan defines business acumen as “The ability to understand the building blocks of how a one-person operation or a very big business makes money.”

Alternatively, Kevin Cope, in his book *Seeing the Big Picture* defines it as “a keen, fundamental street-smart insight into how your business operates, makes money, and sustains profitable growth, now and in the future.” Given that there are numerous definitions of business acumen, another one is not needed. However, in order for organizations to successfully close the business acumen competency gap, the competency needs to be well understood and clarified. Thus, we examined well over thirty published definitions and/or explanations of business acumen so that we can formulate meaningful expla-

nations of the competency. Our examination led us to the following conclusions about business acumen characteristics:

1. It is essentially behavioral and experiential, and not merely a mastery of technical business knowledge, concepts, or practices.
2. It requires the synthesis of technical knowledge, personal business experience, broad organizational exposure, global awareness, and analytical insight.
3. High levels of business acumen result in improved financial performance, operating efficiency, human capital value, and market share growth.
4. It leads to decisions that incorporate a balance between short-term objectives and long-term strategic goals.
5. It enables organizational agility to quickly exploit opportunities and defend against threats.
6. The majority of definitions use the expression, “an understanding of...” However, it is doubtful, given the experiential nature of business acumen, if possessing an understanding of business principles qualifies as business acumen.

## The Business Acumen Challenge

Considering the experiential and behavioral enablers that are required to build business acumen within leaders, it poses challenges to organizations faced with the need to raise the level of business acumen among managers and leaders:

- Business acumen requires the synthesis of past experience, technical business knowledge, broad organizational exposure and analytical thinking. However, traditional training (and formal business education) interventions often are limited to the technical components of business acumen. In other words, having an MBA does not equate to having business acumen.
- Individual's roles, and functional departments, within complex organizations require a high

degree of specialization, yet paradoxically, this works against building broad business exposure within leaders in their formative development. This is often referred to as “silo mentality”.

- It’s difficult to measure the degree to which someone possesses business acumen skills via conventional assessment tools as the tools tend to be biased towards technical business knowledge.
- Because business acumen requires experience, the path up the competency curve can be slower than what is needed for emerging leaders rapidly assuming increased responsibility.

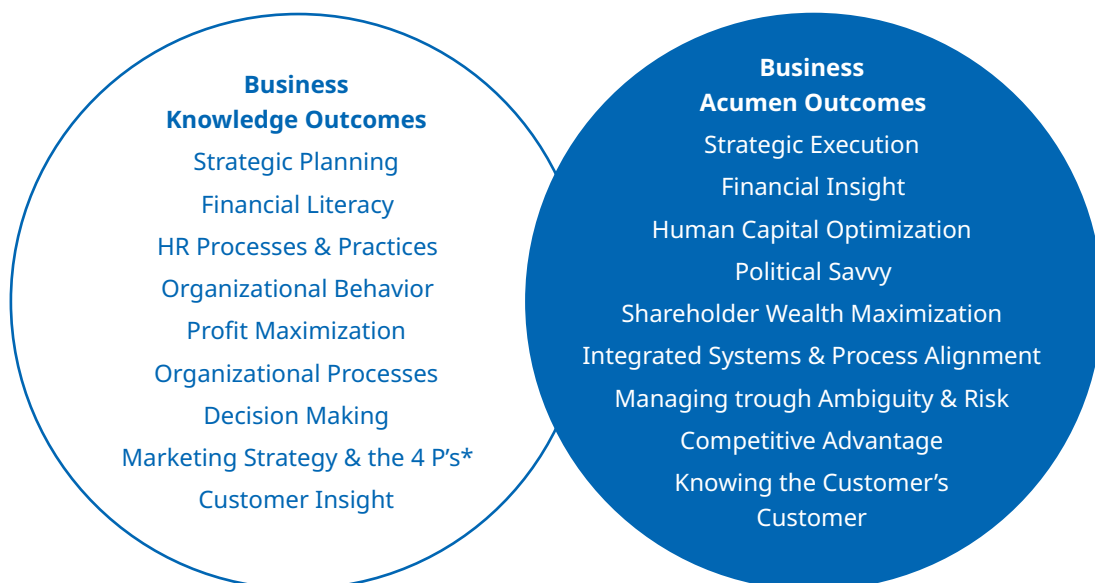
The lack of clarity between business knowledge and business acumen cause many organizations to address business acumen via traditional business knowledge training, or leverage higher education vehicles. While this business knowledge is an essential ingredient of business acumen, it does not build the higher refined skills that organizations need and rely on to grow, stay competitive, and build shareholder wealth. The matrix below depicts the outcomes derived through business knowledge training versus the higher value outcomes associated with refined business acumen.

### The Benefits of Business acumen

Despite the lack of consensus on defining business acumen, and its confusion with business knowledge, there is general consensus about the benefits of pos-

sessing a high degree of business acumen among managers and leaders. They include:

- Improved decision making that balances long-term, short-term, and systemic consequences
- A breakdown of silo mentality as leaders see the implications of their decisions across all functional areas and customer segments
- Improved organizational agility to shift markets and processes quickly
- Building a high performance leadership team – that in itself is a source of competitive advantage
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- Strategic plans actually get executed – not simply developed and “shelved”
- An ability to improve the level of analytical insight within the organization, leading to more profitable results
- Greater focus on predictive quantitative indicators as opposed to lagging indicators and measures
- A source of retaining and attracting talent
- Greater process alignment and systems thinking
- A leadership team that manages ambiguity well and makes informed risk taking decisions
- Greater bench strength among emerging leaders.



\*Product, price, place and promotion.

## Closing the Business Acumen Gap

Given the challenges noted, and considering business acumen is behavioral and experiential, how does an organization rapidly increase the competency level of existing or emerging leaders?

First, is the recognition of the difference between business knowledge and business acumen. Further, that business knowledge can be addressed through more traditional approaches to learning. Building business acumen, however, requires a more experiential and innovative approach that can include any or all of the following:

### Job Rotation

A formal process of exposing emerging leaders to several functional departments within the organization. Today, most rotational programs place an individual within a department for 4-6 weeks. This is simply not enough time. Therefore, rotations need to be a minimum of 3 months to fully internalize the function and its challenges. Moreover, this extended time allows the individual to build a sustained relationship network throughout the organization, which is a key contributor to political savvy.

### Business Simulations

One of the most effective ways of transforming knowledge into application is the use of business simulations. Business simulations allow leaders to learn in a fast-paced, engaging, and realistic setting. These highly interactive sessions require individuals to apply knowledge, solve complex problems, balance long-term and short-term goals, drive the importance of organizational alignment, build analytical thinking, manage risk, and build consensus with

others. In many cases, business simulations require individuals to focus both internally within the organization, and externally on the market. Business simulations also serve as a form of experience as participants learn from their mistakes as much as they do from their successes.

### Elevate the Organization's Mission, Vision, and Values

A shared understanding of these principles creates an aligned and effective work force across the organization. Learn from Mistakes: Create a culture of high expectations, but tolerate mistakes. Building business acumen includes learning from mistakes.

### Foreign Assignments

Many companies require future leaders to spend one year abroad. This increases multicultural awareness and a global perspective; both are essential ingredients of business acumen.

### Broader Recruitment Criteria

There is a hiring bias skewed to candidates from within one's industry. Enlightened organizations, on the other hand, see beyond this narrow range, and seek those from complementary, competitive, or vertical industries. This broadens the perspective and wisdom of the leadership team.

## The Bottom Line

Building business acumen is an integrated process. The rewards are plentiful, and leading organizations who understand it discover a new source of competitive advantage!