

Building Better Business Acumen

BY E. TED PRINCE



Developing business acumen enterprisewide is a difficult undertaking, but it meets a critical training and development need as well as restores much-needed street cred to the learning function.

What does business acumen have to do with leadership development? This is a common question among CLOs. The fact that it is still asked speaks volumes about where leadership development is — and where it is not.

We are just coming out of the deepest economic recession since the 1930s. Millions are out of work. Companies are still trying to figure out how to produce profits in the face of such challenges as carbon caps, health care reform and social sustainability. If nothing else, business acumen is a critical need for all companies if they are first to survive and then to prosper. Business acumen is a key requirement for being an effective leader.

Business Acumen Before the Great Recession

Flash back to two or three years ago, when companies were still prospering and no one was talking about business acumen in reference to leadership development. When everyone is making money, they all feel that they have high business acumen and that they don't need any training or development in it.

However, today it has been made clear that many of these executives did not have high business acumen and sorely needed it. The results of ineffective or bad financial behaviors usually appear several years in the future rather than in the year they occurred. In fact, it is often precisely when enterprises are most profitable that business acumen is at its lowest, and anyone promoted into a leadership position will appear to have been responsible for that profitability, even if he or she had no business acumen at all.

Many senior executives in all industries tend to be deluded about their own levels of business acumen. The delusion may actually become stronger as they move up the corporate ladder since the progression reinforces the notion that they got there because of their business acumen.

Before the Great Recession, leadership development was essentially a boom-time phenomenon. It could afford to focus on traditional leadership competencies such as interpersonal skills, emotional intelligence and decision making. To some extent, leadership development had atrophied into the study of leadership when things are going well.

Today, we are in a very different place. Business acumen is all about showing how our behaviors directly impact and improve business outcomes, measured in financial and market value terms. Business acumen development aims to fill the chasm in traditional leadership development programs, which involves the behavioral skills that lead to increases in profitability and market value.

Business acumen is defined as the capability to bring about positive business outcomes. The precise definition we use in our work is the behavioral propensity to create capital. Note that “capital” used this way does not always, or even necessarily, refer to financial capital. It also can refer to the creation of social capital, as in nonprofits, or political capital, as in government organizations.

Desired Outcomes of Development

Before we discuss the approaches to business acumen, it's important to identify the desired outcomes of a business acumen program. These include the increased likelihood that:

- Participants are aware of their own impact on financial outcomes and change their behavior to improve this impact.
- Participants are more cost conscious. They will know how to make the correct cost-value trade-offs.
- Participants understand how their behavior impacts value-creating activities in the organization and, in turn, understand how this impacts gross margin. They will then make behavioral and process changes to increase the gross margin impact of their actions and decisions.

Business acumen is not a technical skill: It is a set of behaviors that are independent from intelligence, technical skills and financial knowledge.

Participants know how to assess their own business acumen and that of their managers and effectively use this information to improve financial and business outcomes.

Participants understand how to improve their alignment with the organization's financial performance, innovation and market-value goals.

Participants understand how to integrate this approach into other organizationwide approaches, both in the human capital realm and other areas, such as finance, marketing, sales, production and distribution.

You will notice one important omission in this list — nowhere does it state that the person will have more knowledge of finance or economics as a result of the business acumen program. The reason for this is that it is becoming increasingly apparent that business acumen and financial literacy are not the same thing. This is because business acumen is not a technical skill: It is a set of behaviors that are independent from intelligence, technical skills and financial knowledge. This has some important ramifications for business acumen programs.

Business acumen programs aim to have a measurable impact on financial outcomes. Three main approaches to measuring and developing business acumen have been evolving in the market:

- Building financial literacy.
- Conducting business simulations and games.
- Using behavioral tools for assessment and intervention.

Building Financial Literacy

This is perhaps the most common approach, and unfortunately it is also the most misguided. It usually involves either conducting in-house financial training, or for more senior executives, sending them off to a program at a university.

In addition to the fact that having high financial literacy has nothing to do with making money, there are other reasons why this approach generally does not result in the desired outcomes listed above. First, most managers sent off to universities already have business qualifications, so they are getting more of the same — not something different — in the area of improving their own financial behaviors.

Second, universities do not have a model of business acumen. They also do not possess the tools to measure the individual business acumen of their students to establish a behavioral base line against which an intervention program for them can be devised. Furthermore, university courses are not designed to teach business acumen; they are designed to teach the understanding of accepted financial and economic models.

However, there is one exception to the above: conducting internal programs for more junior managers who have no formal business qualifications. Such programs will not provide them with business acumen, but may offer them some knowledge that will help them better understand business outcomes.

Conducting Business Simulations and Games

A second approach is conducting internal business simulations and games. While this approach is a step in the right direction, it comes with its own issues. These include the likelihood that:

- These games never involve obtaining a behavioral base line for the participants so one can never know if they had any measurable behavioral impact.
- Participants are usually rated by observers; however, the Hawthorne effect states that people act differently when they know that they are being observed. We have no way of knowing how they will actually

The rationale for behavioral assessment is that different individuals respond in different ways to financial cues and signals.

act if they are not being observed and how they will act in a real business situation.

Often the simulation is too artificial to be of real-world relevance.

One other factor to note is that business simulations are usually conducted with relatively junior staff. It appears that there is the perception by senior managers that these simulations are not real-world enough to meet their own needs at their particular levels. It is relatively unusual for this approach to be conducted with senior managers.

That said, however, simulations and games can be a useful component of a business acumen program — as long as they are not the only component.

Behavior-Based Assessment and Development

In this approach, there is a formal behavioral model of business acumen as well as behavioral assessments based on this model. Participants start by completing these assessments as a basis for an assessment of their business acumen and to provide the behavioral data required for an intervention program targeted at their unique behavioral needs. These assessments are used not only for the assessment of individuals, but also for the assessment of the financial impact of teams they are on, including the impact on the company's market value.

The rationale for behavioral assessment is that different individuals respond in different ways to financial cues and signals. If we don't understand these differences, we can't get a clear picture of individuals' current capabilities — meaning we won't be able to address their intervention needs.

In particular, the team behavior data is necessary so that we can understand alignment issues in the financial mission of the individual compared

with that of the team, as well as that of the overall organization. As such, behavior-based programs for business acumen are also really team effectiveness programs, in which the aim is to increase the effectiveness of the team in terms of financial and market value outcomes.

Behavior-based business acumen programs are new. Conceptually, they derive from the new disciplines of behavioral finance and behavioral economics, although they also leverage the more traditional topics of personality and competency. We can expect this area to be a key channel for advancing business acumen development in leadership programs, especially at the more senior levels.

The Future

Leadership development has to adapt to become relevant in bad or even “normal” times instead of only in good times. This will require some major changes in leadership development programs and in the mindset of the people who run them.

Many learning leaders may not feel comfortable in the area of business acumen, since often they do not have a business background. Yet, in order to keep abreast of the field, they will have to get acquainted with it. The good news is that this will make leadership development professionals more attuned to the needs of the business side of organizations and provide them with the street cred they need to accomplish important learning and development — and broader strategic — goals. [CLO](#)

E. Ted Prince is the founder and CEO of the Perth Leadership and is the author of The Three Financial Styles of Very Successful Leaders. He can be reached at editor@clomedia.com.