

Insights & Ideas

Leadership Deficit—Taking Care of Business.

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By Pierre Robitaille, Malcolm Gabriel, and Barry Leskin

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EXECUTIVE SUMMARY

Many organizations have made major efforts to align business units with core strategies and wider company goals. However, a recent study of 79 international organizations, 70% had revenues exceeding \$11 billion US, shows a deficit in business acumen among business leaders. These are the people who are vested in making value creation decisions for their firms. The reasons for the deficit are many. One contributing element is the over-emphasis on soft skills in diagnostic tools and the capabilities of human resources professionals who are preoccupied with organizational climate. We look at the definition of the business acumen competency, its implications and best practices for improving this capability.

1. Introduction

Effective business leaders start with the development of a differentiated strategy and focus on executing that strategy using various change management techniques. It is the skill area described as business acumen that enables them to make money with their chosen strategy.

While there appears to be a lack of agreement on the definition of business acumen we prefer Ram Charan's take on the issue: "Linking an insightful assess-

ment of the external business landscape with the keen awareness of how money can be made and then executing the strategy to deliver the desired results, in other words, how to make money."

So it is the ability to assess the external landscape and translate it into commercial opportunities. In practice, this means interpreting financial indicators to determine strategic options; and developing profitable business ventures based on current and future market and business drivers. It includes providing market alternatives for competitive differentiation; comprehensively analyzing the key indicators of organizational health in terms of cash flow, margin, asset use, sales and earnings; identifying financial trends that affect systemic organizational issues; and generating viable financial alternatives to improve the company's position and limit risk.

2. Evidence of deficit in business acumen

In a 2007 study conducted by Executive Networks, various Talent Management Directors, Chief Learning Officers, and senior leaders of Human Resources were asked about the emphasis placed on business acumen in assessing and developing their business leaders. Executive Networks includes 200 global organizations and is comprised of senior executives who have direct access to succession plans and executive selection decisions. This population also oversees the management and executive development programs and processes for their organization and generally knows which initiatives have been most successful in their organization.



Continued on page 2

Insights & Ideas



Leadership Deficit—Taking Care of Business, cont..

The results of the study show that business acumen is “extremely or very important” in assessing and developing talent compared to all other competency areas. This is a surprise because business acumen is seldom included in competency assessments. The study also pointed out that almost all general managers with P & L responsibility lack at least some of this business acumen capability. To break down the assessment further, the results indicated that just over half the managers had “some” business acumen capability and almost one third had “limited” capability in that area.

Regarding the financial skills that Charan sees as integral to business acumen, scores in the survey were even weaker. The key financial variables he sees are net income, cash generation and profitable growth and the relationship of these three to each other. Survey data indicates that less than 10% of general managers and those with P & L accountability have “strong” financial skills in those areas.

The greatest need for business acumen expertise is seen with the middle manager population

The remaining 90% have “some” or “little or no capability” in these areas. This is very surprising since these are powerful building blocks to business acumen. The greatest need for business acumen expertise is seen with the middle manager population, even though there are clear gaps at the GM and other P & L levels as well.

If profitable growth is a key element of making money and there are obvious gaps in the financial building block skills to achieve it, why is there a lower emphasis in many leadership development programs in this skill area?

3. Reasons for the deficit

One possible explanation lies in the availability and comfort with diagnostic tools by human resource professionals. This is the group that most often designs leadership development programs. Many HR professionals have social science backgrounds and use tools with which they have experience and confidence. More often than not, they are concerned with organizational climate and the tools tend to be in the soft skills area. They include 360 competency assessments looking at dimensions like leadership style, communications, developing strategic relationships, empowerment, coaching and engagement. Sometimes a business acumen competency will be included but typically it will be one of 15-20 elements. The potential danger is that we often see the world through the lenses we have learned. So in diagnosing executive development needs it is not unexpected that the persons doing the assessment will comfortably gravitate toward the client’s needs in the soft skills area.

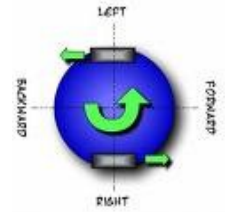


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Another explanation for the dominance of soft skills content in executive programs is that many business leaders are promoted from within. At middle management levels there is lower emphasis on the relationship

Continued on page 3

Insights & Ideas



Leadership Deficit—Taking Care of Business, cont..

building part of the business leader role, and partly explains the need to strengthen the soft skills area in executive programs, which no doubt influences the program content. Few HR leaders would be criticized for strengthening the interpersonal skills in their executive programs.

Another reason for the over-emphasis on “soft skills” in leadership development programs are that leaders were generally promoted based on their technical competence in their previous role. Once promoted into their new managerial role, the people management components, especially gaps in these areas, became more visible. Interestingly, poor interpersonal skills are one of the two greatest causes of derailment of executives in the U.S. and Europe. Our experience at CCI is that 75% of coaching mandates deal with ‘executive carriage’, few clients will ask us to work to help the leader grow EBITDA! However, all is not lost, our mandates always have business result improvement as an objective.

The reality is that both soft skills and hard skills are needed by those in business leader positions. Some make assumptions that leaders have the hard skills already when they are promoted to key positions. That is often not true. These skills are not integrated well into development programs for operating and line managers. Their actual evaluation and reward systems are more hard skills than soft skills based. Therefore, limiting or excluding these content areas in leadership programs runs the risk of program designers and HR losing credibility with their business executives.



So, with acknowledged deficits amongst business leaders today, what is the most effective means in for enhancing their business acumen?

4. Best practices for enhancing business acumen

First, leadership diagnostic tools must include elements of business acumen. There are few 360 degree feedback tools on the market that evaluate both business acumen and the “soft” skills equally, and more is needed to enhance the credibility of assessment tools to include business acumen. Talent Management Consultants has a robust assessment tool that not only measures the “hard” and “soft” skills in the same proportion, the results are benchmarked against other companies.

Second, Human Resources departments need to have more business acumen themselves. This is a contentious issue within the function. The HR role is in the midst of an identity cross-roads between its transactional legacy and a more strategic orientation in the future.

Third, once “leadership” has been re-branded to include business acumen and the main “suppliers” of assessment tools expand their business acumen diagnostic capabilities, it is time to look at other contributing elements.

On the job learning is currently the most predominant method by which managers develop business acumen. Although learning by doing is an effective learning method for most, it is not the most efficient means of acquiring such critical skills in a short time frame. As Eleanor Roosevelt stated, “*we can't live long enough to make all these mistakes ourselves*”. Therefore, executives must learn quickly from others mistakes and

Insights & Ideas



Leadership Deficit—Taking Care of Business, cont..

insights of others or they have to learn quickly from their own mistakes preferably through induced experiences in simulated environments.

Another way for executives to learn from others' is through executive leadership programs offered at business schools. Some professors in executive leadership programs often have both academic and practical business credentials and will draw on a wide variety of industries to deliver tailored programs. Business schools can engage corporations about their specific learning needs and offer customized program content that addresses their learning objectives. This is in contrast with the traditional model of corporations sending executives to open enrollment programs. These programs tend to produce program content of which less than 60% is related to their learning need, industry and business.

It is not enough to have only high potential talent receive cutting edge and leadership training.

Made to measure programs work best for corporations when the senior leadership team gets involved in program design and delivery. CCI has observed that what seems to work with it's learning design is having a larger number of organization members participate in these events, not just the high potential talent. These organizations realize that systems and different organizational functions must change simultaneously in order for real change to take effect. It is not enough to have only high potential talent receive cutting edge and leadership training. When they return to their "back home" roles, they will face managers and others who haven't undergone the same insightful experiences. Customized programs allow learning to become deeply personal because the learning engagement is specific to their industry and business, yet you don't want these potential innovators become organizational outcasts.

Another feature gaining prominence inside executive leadership programs is company specific business case studies. Instead of engaging a Harvard case about General Electric or South West Airlines, a customized executive program includes a business case that mirrors the participant organization's industry, business challenges and dynamics. Learning from professors, and the potential immediate application of this learning, is greatly enhanced when case studies are personalized to the participant's context. We witnessed a case study developed by a prominent business school and included in a customized program for general managers in a telecommunications company. Although the case removed references to the telecommunications industry, it was written so that it contained all the dynamics, dilemmas and real life challenges faced by the leaders. The learning was enormously powerful and the participants were able to adapt readily the learning to their business challenges.



Similarly, in an executive development program delivered to a large global financial services company, a case study on ethics was written around a real life situation faced by the company a few years earlier. The case was included on the last day of the program, and the protagonists in the case, i.e. the company's chief legal counsel and its former CEO, were invited as guest speakers on an open panel discussion after the participants worked through the dilemmas in the case. Participant feedback scores ranked the inclusion of the case study as having

Insights & Ideas



Leadership Deficit—Taking Care of Business, cont..

the highest impact of all the program. The learning in this situation was a real experience that participants reveled in their reflection, and not a dispassionate hypothetical situation.

Another means of inducing experiences that allow participants to learn from the choices they make is through company specific business simulations. These are interactive high level strategy games that reflect all the dynamics and dilemmas experienced within real life business situations. CCI has designed short half-day scenarios and some providers will have participants engaged for a full week. Like the customized executive development programs, learning in a business simulation has high retention because it is personal, interactive, and allows for reflection about the learning that has occurred.

Participants in a business simulation are *personally* involved as business owners making decisions that have financial and market consequences in their simulated environment, and therefore inherit the rewards and risks of good and bad analysis and decisions. It is also *interactive* because participants compete with each other in simulated market conditions. They experiment with cause and effect relationships between analysis, strategy differentiation, competition and market impact. It is *reflective* because participant groups reflect on the financial performance of their team through a dialogue about lessons learned and the subsequent market conditions as a result of group competition. This approach can be used for learning of course but can be quite useful for assessment purposes.

Another method for developing business acumen is cross-supply chain rotational assignments. Traditional rotational assignments in accelerated management / executive development often occur within multiple functions within one organization. This is very effective for entry level management positions.

Executives who are not intimately aware of these causal relationships can inadvertently disrupt an entire supply chain's efficiency

However, for middle to upper level management positions, a hands-on experience of different parts of the supply chain can greatly enhance business acumen, especially where decisions in one part of the supply chain has significant impact on another part in tightly integrated supply chains as a result of ERP systems and buyer power intensification. Consequently, the cause and effect relationships between suppliers and retailers are tightly connected. Executives who are not intimately aware of these causal relationships can inadvertently disrupt an entire supply chain's efficiency and profit margin. Moreover, an awareness of these dynamics increases their leverage with the front-end of the market.

Cross-supply chain rotational assignments are only possible where healthy and mature relationships exist between different points in the supply chain. They require collaboration between the line and functional departments, but they offer the adversity and diversity set of experiences that haven shown to most enhance individual learning.

Insights & Ideas

Leadership Deficit—Taking Care of Business, cont..

5. Conclusion

Middle level and senior leaders with P&L accountability need business acumen so that their organizations deliver outstanding shareholder returns. We need to identify strategy execution skills shortfalls by incorporating business acumen elements in diagnostic tools and re-framing the mindset of the custodians of talent and those who design assessment and learning programs. Customized business school programs have highest learning impact on business acumen when participants learn more about industry and international best practices and apply it to a company specific case study. Business simulations will have high impact when leaders need to experience current market dynamics in a personalized, interactive, and reflective environment. Rotational job assignments can be greatly enhanced when it is facilitated between businesses in a supply chain.



Pierre Robitaille is the CEO of CCI Leadership Strategies based in Toronto, Canada, and can be contacted on 416-606-9258 or pierre.robitaille@cci-leadershipstrategies.com.



Malcolm Gabriel is the Chairperson of the Advisory Board of CCI Leadership Strategies, and can be contacted at 613-329-0504 or malcolm.gabriel@cci-leadershipstrategies.com.



Barry Leskin is President of Talent Management Consulting, based in San Jose, California, and he writes a regular column for the Silicon Valley/San Jose Business Journal, "Misconception and Reality in Management of the Human Organization". Barry can be contacted by e-mail at barryleskin@aol.com.

CONTACT US

www.cci-leadershipstrategies.com

e-mail: info@cci-leadershipstrategies.com / Tel: 416-606-9258
6-1500 Upper Middle Rd. W., Suite 346. Oakville, Ontario. L6M 0C2