

Business acumen

The key to competitive advantage in uncertain times

In June 2016, GfK¹ ran an extraordinary consumer confidence survey and found that confidence had dipped at its sharpest rate for 22 years following the vote to leave the EU. It fell by eight points, the biggest drop since 1994 when Britain was in the grip of recession and a housing crash.

It comes at a time when Britain is facing questions over national productivity. Though unemployment rates are low and overall productivity rose by 1% over 2015, the last quarter of 2015 saw a decline of 1.2% prompting economic growth forecasts to be lowered.² The International Monetary Fund has also reappraised its growth forecasts to be less bullish.³

While there are many information sources that can help a company try and predict the future, there are no perfect answers. No one can ever truly know what will happen, especially when it comes to the economy.

As such, many boardrooms will be evaluating their strategy in light of these national numbers and the uncertainty that currently prevails. While it must be business as usual until the terms of the exit are clear, it would be foolish not to respond to immediate market conditions.

Change will come from all directions but it's expected that the biggest will be those that relate to regulation and people. Business leaders will need to assess how the exit will impact the skills they already have and those that will be available in the future, and ultimately how it will effect their growth plans – after all without people there is no business.

It's very easy for companies to have a knee jerk reaction and focus initially on stripping out cost from the operating model. It seems to be a staple strategy when times get tough. However, if you look back in history, companies that ride the storm best are those that invest in their people. It can't be understated as to how important this is and that a cost cutting agenda should only remove 'fat' and not the 'muscle'. It's this muscle of leadership, experience and skill that provides stability when the economy shrinks, and supports growth as things improve.

There is a strong link between how a company's leadership community performs and the company's performance. Yet, The Chartered Institute of Management Accounting⁴ suggests in a recent study that leaders may have strong capability to perform their functional role, but might not have all the capabilities required for decision-making in volatile and uncertain times.

This leaves a gap in strategic delivery. You can have a solid and well-communicated plan but if your management team can't make wise decisions that have a positive impact on the company's future then the plan will only fail. Business acumen is therefore a critical component of strategic delivery and competitive advantage – at any time but especially during more turbulent times.

What is business acumen and why is it so important?

Business acumen is that all-important ability to take a big picture view of a business problem, assimilate all the variables and make a quick and accurate assessment of the action required. Individuals need to be logical, confident and able to use their influencing skills to create consensus.

The theory related to acumen points to a need to have an understanding of finance, accounting, marketing through to operational functions such as sales and HR.

But that's the theory. Leaders of FTSE100 companies to ambitious start-ups will tell you the practical realities require a broader set of skills, none of which come from a textbook.

They'd say that the most important skill is the ability to deal with ambiguity and take decisions based on the best information available to them at the time.

You can only succeed at this when you have contextual knowledge and an in-built sense of what is right for your organisation. You need to appreciate the wider business environment, and what influences it, and be able to fully understand the information you have access to both internally and externally. Or there is a danger you fall into paralysis.

Paralysis seems extreme but it is a very real threat. If it is allowed to creep in, it can bring about failure - the leaders who are looked to for guidance and stability are undermined.

Individuals making the strategic decisions therefore need personal resilience so they can cope with the consequences, especially if there is a risk that, with hindsight, another path should have been chosen.

And what's more they need to show to their teams that the decisions being made are decisive and aligned to a wider company strategy designed to achieve a common goal. Without these qualities no amount of planning can achieve growth or turn around fortunes.

"You need to understand the context to be able to really understand the information, or there is a real danger you fall into analysis paralysis."

The benefits of business savvy leaders in uncertain times

Business Acumen comes from experience. You can't learn it from a textbook. You need to live through situations, often making mistakes to develop the capability. That takes bravery on the part of the leader and the aspiring leader, but those that are brave and foster an environment that lets business acumen grow are more successful. How?

1 Leaders are confident to take decisive action

Research from the Chartered Institute of Management Accountants indicates that senior leaders are struggling with decision-making – and businesses are suffering significant losses as a result. In the survey, 72% of organisations admitted to at least one strategic initiative failing over the last three years, with 42% of surveyed leaders saying their company had lost competitive advantage in the last year because they were slow to make decisions.

A reluctance to make decisions can often come from a lack of experience, the hope that things will change, or that better information will become available. Granted people have to have information to act on, but there will always be times when the information you want isn't available. Those are the times when you have to bite the bullet and be decisive, or watch your competitors pull away.

But when leaders are equipped to perform their job well, the ability to lead teams and make decisions improves. Teams are more focused and cohesive. Collaboration increases and employee engagement improves. That's true even when times are tough because people have a single idea to rally behind and can see how they can contribute to make a difference. In short, they benefit from decisive leadership.

There is also a financial gain as Deloitte uncovered when it studied the impact of good leadership on a company's value. Companies with effective leadership teams are valued more highly – by as much as 35.5% in some cases – than those with ineffective ones.⁵

2 Leaders can make better, more profitable decisions, by aligning resources with the overriding business objective.

Almost every large organisation has some form of document that states its overall strategic objective and most senior executives would be able to articulate it. Move a couple of levels down to the people who are actually making the day to day decisions about which customers to service, and how, and which projects to prioritise with their teams, and the objective is less than clear.

So there are two things at play: firstly, an overwhelming need for a communications strategy that ensures every one knows their role, and secondly, a requirement for a deeper contextual knowledge that's embedded amongst existing and aspiring management teams. Contextual awareness is so critical but often falls to the way side as people get on with executing the strategy before really assimilating it.

Carphone Warehouse is a shining example of how important it is to follow a single strategy. It achieved a 17% growth in profits in a sector that has seen big brands like Austin Reed and BHS close, and others release profit warnings, and many analysts put it down to the company's leadership and its ability to ensure everyone knows their role in the strategic delivery.



3 Leaders are more likely to help the organisation innovate and grow

They can see gaps in the market and can respond better than their competitors. Steve Jobs is often cited as having business acumen despite the fact he was not responsible for the design of the actual technology Apple launched.

Instead he used existing ideas which were combined together in a way that provided the customer with something he/she really wanted – whether they knew they needed it or not. To create his disruptive product lines, Jobs used foresight and insight about the market and what customers wanted, to blend function and design in a way that had never been done before.

The role of simulations

It's clear then that leaders need more than functional skills, they need business acumen too.

However, business acumen is a learned skill. It is not innate. It is a blend of theoretical knowledge, often gained through formal training, and business experience. Only then can people learn the skills of analytical assessment, interpretation and judgment that so many decisions rely on.

However it can feel very high risk to put people in a position where they must take decisions without any practice or experience.

That's why some of the world's largest organisations turn to business simulation games, which provide participants with a safe way of learning and honing their skills.

"The more I practice the luckier I get." Gary Player

Simulations work by asking people to consider a situation, take action, examine the consequences of their action and plan the next steps. This process offers an ideal way for participants to gain the exposure they need to make quick and decisive decisions underpinned by the knowledge and skills they have available to them at the time.

Business simulation games open up a debate in which the individuals can discuss the ramifications of their decisions, reflect on their own level of understanding and consider where additional skill would be beneficial.

Perhaps one of the most important benefits is that simulations help to shorten the cycle of learning, yet in a way that is absolutely embedded into the culture. People can select the situations they anticipate they will face and rehearse them without making costly mistakes. In uncertain times, and with so many fluctuations in the economic indicators, the chance to practice high profile decisions is invaluable.

Simulations work best when they are embedded in a programme that is specific to the company, as it can not only develop the participants' business acumen it can also break down some of the barriers to effective decision-making by building trust between the leaders working in different areas of an organisation. They can also see how and why decisions are made further up the organisational hierarchy, and the financial impact they have.

The way ahead – turning risk into opportunity through leadership

Businesses will always face change, but the withdrawal from the EU is unprecedented. From fiscal and economic policy revisions, to free trade and regulatory change, the immediate future presents a complex environment for businesses to operate in.

Now more than ever, the decisions leaders make, even if it is to do nothing radical in the short-term, will require a new level of acumen. Astute leadership can't just come from the top. It needs to be a characteristic that's evident through all layers of management and most importantly, aligned to a single strategy.

The board needs complete confidence that everyone taking decisions is up to the job and is well versed in assessing the influencing factors, including the unknowns, and has the appropriate experience to succeed.

Creating an environment that encourages this is paramount. However, it also needs to be a safe environment, especially for those being asked to take on new levels of responsibility for the first time, to ensure there are no damaging repercussions from making the wrong choice.

Business simulations offer a theatre for rehearsal and a chance to learn without fear. It's a proven way to boost the necessary acumen and confidence to perform to the best of one's ability in the circumstance they face.

The businesses that adopt such a people investment strategy will be the ones that thrive and will be best placed to take the uncertainty presented by Brexit and turn it into opportunity.

"Overcoming siloed thinking and building greater levels of trust to improve collaboration were identified as factors preventing senior leaders from making the right decisions."

Our solution

Elgood has a range of business simulations that can be used to develop business acumen. They can be used in face-to-face training programmes or with remote facilitation. The simulations focus on key business principles and enable people to get a feel for the cause and effect of their decisions in a competitive environment. Using these programmes as part of a leadership or development activity alongside sessions that look at an organisation's own strategic direction and choices, can really help develop critical decision-making skills.

The outcomes are evident in terms of how people approach their work. They are more confident with financial decisions and the impact on the overall company finances. They believe and follow the CEO and the board because they understand the driving force, and they are better equipped to consistently communicate the strategy.

If your business is particularly specialised, then a bespoke simulation is appropriate. When one of our customers was faced with massive changes in their regulatory environment we worked with them to create a business game to communicate the changes and how these would affect decision making within the business.

Why Elgood?

Elgood has been developing business games and simulations covering a wide variety of topics from Sales Management, Business and Commercial Acumen, Business processes and Health and Safety for over 30 years. It has worked across Industries, the Public Sector and across Continents to enable change in some of the most influential companies and organisations in the world.

References

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