

Business Acumen: What is it? Who needs it? How do you acquire it?



As a learning and development professional, I am a firm believer in the benefits of all employees being commercially aware, both for their career development and for the benefit of the organisation that they work for. And as the pace of commercial and technical change accelerates, companies and organisations are becoming increasingly conscious of the need to enhance the business acumen of their people. But what exactly is business acumen, and is it an innate or an acquired skill? This paper explores the issues surrounding business acumen, and examines its definition.

What is Business Acumen?

Business acumen is a combination of knowledge and skill informed by experience: knowledge about key business issues, the skill to apply that knowledge, and the confidence to take action informed by past experiences.

Individuals may possess the relevant knowledge, but without skilful application that knowledge will not translate into any individual or organisational gain. Therefore, it is the ability to take informed action that is critical. Experience provides the individual with the confidence to take appropriate action, even when the facts are unclear or unknown, and the desired for outcome can not be guaranteed.

Business acumen need not relate exclusively to organisations dedicated to the generation of profit. Traditionally there has been a divide between a business which is classified as an organisation driven to achieve profit, and other types of organisation where the objective may not be to make money. Business acumen is equally applicable to both. Whatever the organisation, it will have an over-riding objective and it is the understanding of this and what is required to achieve it that encapsulates business acumen.

At a very basic level all organisations, whether they are commercial or not-for-profit, involve taking an input and adding value or applying a change to create an output. And all organisations wish to do this as efficiently and effectively as possible. In a business that means more profit, and in a not-for-profit organisation it means more services applied to generate higher output.

Examples of organisational objectives

Commercial organisation – business measures:

- Increase shareholder value (share price, dividends, price/earnings ratio)
- Achieve a specific market share (second quartile competitor in the industry)
- Achieve a growth target (10 more retail outlets)

Not-for-profit organisation – social and political measures:

- Maximise the number of services provided (operations/ doctor's appointments)
- To be in the top ten organisations to work for (voted for by staff)
- Run all services in a timely and efficient manner (10% error margin)
- Ensure x % of children attain y qualifications

In order to help the organisation achieve its objectives, individuals, at whatever level within the organisation they operate, will need to know certain things:

- **Financial literacy** – The ability to understand how an organisation uses its resources to achieve its desired outcome. In a commercial context this is often measured in terms of profit or revenue, in other organisations the key measure for success might be improved capacity or measurable social benefits.
- **Organisational knowledge** – Knowledge about the organisation in which the individual works. What are the relevant procedures and processes? How can they get things done?
- **Ability to deal with ambiguity** – In many cases it is impossible to know everything relevant to a situation. Each individual must decide when the information available is sufficient to move forward.
- **Ability to link cause and effect** – Both in a financial sense (e.g. 10% discount means we will not make a profit) and in a personal sense (e.g. if we don't complete this forecast accurately, our boss will not secure the resources we need next year.)

- **self awareness** – How will an individual’s actions and decisions impact on the organisation and the other people in it?
- **stakeholder awareness** – What are the stakeholders interests and needs, and how do decisions made within the organisation impact upon them?
- **contextual knowledge** – The ability to relate what happens outside an individual’s immediate environment to situations in the work place. For senior managers this will involve looking at the wider external landscape. For supervisors it means knowing about the changes happening within their own organisation.



“ Taking into account all of the above requirements, we define business acumen as:

The ability to take a ‘big picture’ view of a situation, to weigh it up quickly, make a logical, sound decision confidently, and influence others to agree with you in order to have a positive impact towards achieving the objectives of the organisation.”

What is the benefit for the organisation and yourself?

The biggest benefits at an organisational level are firstly the ability of each individual to make decisions that align with the organisation’s objectives and secondly to take the required action. These two factors generate increases in organisational effectiveness and efficiency.

Individuals are able to make appropriate decisions because:

- They see the bigger picture and understand how each part of the organisation fits together.
- They have the skills to deal with complexity and uncertainty. They can process the available relevant information and have the confidence to reach a conclusion.

Individuals who possess business acumen will take actions for the benefit of the organisation. For example:

- Decisions will be made to ensure the best return for any effort expended. This might be a financial investment or the application of man hours to a problem. These actions will influence top-line revenue growth.
- Individuals will have the knowledge to be able to bridge the communication gap within the organisation by translating the decisions made at higher levels into understandable policies and procedures for their teams.
- When faced with a complex issue where no solution appears ideal, they will have the skill to analyse the information they do have, the confidence to make rational assumptions to fill in the gaps, and the courage to make a decision. As such the organisation will avoid long periods of inactivity and uncertainty and will have the chance to grab future opportunities – maybe before the competitors.

Organisations populated by individuals with strong business acumen will have a shared understanding of the opportunities and threats facing the organisation and will be able to come up with a logical and coordinated response. Every individual’s actions and decisions will be strategically aligned with those of the organisation.

Business acumen in action:

Mary's company is the market leader in a large financial services industry. As a manager her revenue targets are constantly increasing, while the market is tighter and tighter. It is clear to her that part of the problem is that as the market for new business has shrunk, her consultants are chasing every piece of new business without really assessing whether it would be good for the company. Her finance team reckons it takes 10 hours to put together a proposal, and with a win rate of only 20 per cent the current approach is not cost effective and makes many of the consultants unprofitable.

In this scenario, Mary has a crucial role to play as a middle manager in translating the organisation's overall objectives into action. Her ability to see the bigger picture, and the impact of her team's behaviour on the organisation's success is the first step in helping the organisation to succeed. The next step is for her to decide how she can communicate the cause-effect relationship to her team and influence their behaviour for the benefit of all.

Jason is a first line manager in a regional transport company. Driving to work this morning he heard on the radio that the Rapid bus company has just gone into receivership. Jason is local to the area and knows that the service provides vital links for children going to school and college in the local town, and for many older people without cars. His first job this morning will be to call his friend Bill and get the contact name of Xavier, one of his team mates at the local rugby club. Xavier works for the local council and was involved in the tendering process for the transport contracts. He will know whether it would be appropriate for Jason to submit a proposal to take over from the Rapid bus company.

In this scenario Jason is using information gained through the local media and his personal network of contacts to create a potential business opportunity for the organisation: a "win win" situation. If Jason pulls it off, it will be good for his own career and also the performance of the organisation.

Business acumen in action continued:

Georgina works for the borough council where she manages a team that books the public on to speed awareness courses when they have been caught for speeding. Her team is falling behind with course bookings due to the steady increase in offences. While off duty at her tennis club she hears James telling Yvonne how he booked a course on the internet and then received a letter giving him another date (which wasn't convenient for him) because his first choice had not been processed quickly enough. He phoned to agree another date and paid the fee required, only to receive a phone call later that day chasing him for the fee for the date he had cancelled. He was told the booking and payment systems were separate, with a delay in people operating the latter being advised about changes to the former. When Georgina got back to work she recommended a review of processes and systems which resulted in a significant improvement in efficiency, a reduction in complaints, and an elimination of work backlogs.

In this scenario Georgina's awareness enabled her to use information gained while participating in a social off-duty activity to improve the public's experience, when dealing with the Council, and save it and the tax payer costs.

Who needs Business Acumen?

Historically the emphasis has been on developing business acumen amongst senior leaders, but changes in the wider environment mean that it is becoming increasingly important for all staff members to develop their business acumen.

Pressures include:

- The increasingly extreme and unpredictable nature of changes in the external and internal environment
- Decisions being made at lower levels in the company
- Organisational structures becoming increasingly complex, with outsourcing, elongated supplier chains etc
- The speed at which decisions need to be made, often with limited and incomplete information
- Success at an individual level relying not just on technical skills, but on the ability to understand the wider organisational context

The case for developing business acumen at senior and middle management levels is clearly and succinctly made by Ram Charan:¹

No single aspect of managerial skill is more important. If the management's assessment of the external landscape — how patterns of converging and diverging trends fit together — is inaccurate, the company's strategic positioning will likely be wrong. Decision makers will be tempted to develop the wrong capabilities, hire the wrong people, or enter the wrong markets.

But is it just at this level? Given the current environment within which organisations and individuals operate, there is a clear case for all members of the organisation having a level of knowledge and skill which enables them to take appropriate action. This means that individuals need to be given the opportunity to experience situations which might be outside their immediate sphere of influence, as their actions will ultimately impact on the organisation at some level.

Assess yourself

Imagine a situation - you are attending an interview and the interviewer asks you to talk about the organisation in which you work for 20 minutes.

You have no preparation time: just do it!

1. Do you know how your organisation is positioned?

2. What about the competitors?

3. What are the current opportunities and threats?

4. What's happening in the external environment that might impact your organisation's plans for the immediate future?

Is business acumen a natural aptitude or can it be acquired through experience?

Business acumen is a learned skill. It's the ability to weigh up a situation quickly, make a logical decision confidently, and influence others positively to agree with you. It isn't innate but there are people who, because of their early experiences or their own personal disposition, will find it an easier skill to acquire. If you naturally look at the world around you with curiosity then you are already part way there – you want to understand how different factors impact on each other.

Business acumen demands intense mental activity. Seeing how the landscape is evolving requires a high calibre of qualitative logic and the ability to frame, assess, discard, and adopt many assumptions at once²

We would agree with this. Acute business awareness requires the acquisition and application of a mixture of skills and, like any other discipline, there will be some people for whom it is a natural skill, some who can acquire it and others for whom it remains an enigma.

I would contend that every individual in any organisation will benefit from a better understanding of the organisation in which they work. If people understand the context within which they operate, they will be better able to make decisions and take action which results in better performance at an individual and organisational level. However, the level of awareness required by each individual will vary. For example, is it necessary for a newly recruited graduate to understand the competitive position of the company and its competitors within the market place? The task for the business leader is to decide what level of business acumen is required at each level and to ensure that any deficiencies are rectified.

How can we help?

Business acumen is the application of both skill and knowledge and therefore carries a practical element. This can be acquired through 'on the job' experience either as part of a formal course or simply as part of normal work experience.

Limitations to learning 'on-the-job':

- The individual is only exposed to certain situations
- Those situations might not be relevant to the acquisition of business acumen
- It takes a long time to gather the experience required
- While a person is learning on the job they are contributing below par and also sucking in resources from others to help them learn.

Business simulation games allow for experiential learning: the cycle of experience, observation, conceptualisation and experimentation identified by Kolbⁱⁱⁱ. Individuals have the opportunity to consider a situation, take action, examine the consequences of their action and consider their next steps. Through this process they offer an ideal way for participants to gain the experiences they need to underpin the knowledge and skills which together are required to acquire business acumen. Business simulation games open up a debate in which the individuals can discuss the ramifications of business acumen, reflect on their own level of understanding and consider where additional skill would be beneficial. Here at Elgood Effective Learning we have many years of experience in designing and delivering bespoke business simulation games to a wide variety of businesses, educational establishments and not for profit organisations.

Business simulation games offer many key benefits to an organisation:

- They enable the user to select the specific situations that need to be covered. e.g. the examination of a particular aspect of the organisation and the cause effect relationship associated with individual actions.
- The time required to develop the skill is dramatically shortened. Imagine getting one year's experience in one day!
- Potentially costly mistakes are eliminated. They have no, or few, real financial implications so mistakes are acceptable.
- They highlight the "cause-effect" relationship and encourage people to start identifying patterns, enhancing their judgement. This means they will be more comfortable making decisions with imperfect information.

More about Elgood

Christine Elgood has been Managing Director of Elgood Effective Learning since 1996, having first completed an MBA with experience gained in the financial areas of manufacturing and retailing. Her business qualifications are complemented by training (CTP) and coaching (ILM) qualifications. She has nurtured Elgood Effective Learning into today's dynamic training provider which specialises in the design and facilitation of business simulation games for the business and education communities. She regularly facilitates courses in the UK and at client sites around Europe.

Together with Chris Elgood, who is a renowned facilitator and an authority in the field of learning and development, and the author of *The Handbook of Management Games*, she is backed up by a skilled group of mentors and facilitators who can draw on many years of experience across diverse industries and organisations to ensure that every training event delivers the experience and results required.

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1 Sharpening your Business Acumen by Ram Charan.

Ram Charan has taught at the Harvard Business School, the Kellogg School of Management and Boston University. He was elected a Fellow of the National Academy of Human Resources in 2000 and named a Distinguished Fellow in 2005. In 2010 the American Society for Training & Development (ASTD) presented him with its Champion of Workplace Learning and Performance Award.

2 Ditto

3 D A Kolb 1984