PARADIGM LEARNING

WHITEPAPER

DEVELOPING BUSINESS-SAVVY LEADERS

LEADERSHIP WHITE PAPER

In too many organizations today, business acumen is a missing leadership competency. Managers without business acumen lack an in-depth understanding of how their actions impact the company's profitability; they struggle to articulate and execute on strategy. This white paper presents a review of business acumen and how organizations can address this critical leadership skill.

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BY CATHERINE J. REZAK

THREE STORIES ABOUT MANAGERS

Ted manages an operations department. An experienced leader who's been around for many years, he runs a very tight ship. He knows what his people need to do and makes sure it gets done. Ted doesn't agree with all the changes going on in the organization and keeps his staff away from what he calls the "turmoil" and "fuss."

Sara runs the top sales group in the company. As a sales leader, she diligently focuses her team on building customer relationships. She believes that this is the key to success. Sara can't stand to lose to competitors, so she does whatever it takes to get the business.

Amit used to be the go-to IT guy before he became the manager of the department. The best technical expert the company has ever had, he keeps up with the latest advances in software and hardware and insists the company does the same. He wins awards in the IT world and receives accolades from the company for his forward-thinking approach.

Successful managers, right? Operational processes are well established and work gets done. Revenue in the sales group is high, and the team earns awards every year. The company has the best hardware and software in the industry.

But what if there is another side to these stories?

Ted, the Operations Manager, does not want anything to change. He has all his processes in place and thinks the company is fine just the way it is. He does not know—or really care—where the company is going or what the competition is doing, and neither do his people. His department runs well. Isn't that the name of the game?

Sara, the Sales Manager, goes for the revenue every time—even if that means discounting products or giving services away to keep the business from the competition. Her group's profitability is some of the lowest in the company, but she feels that the relationships she and her people are building will pay off in the long run. Makes sense, right?

Amit, the IT Manager, is way ahead of the competition when it comes to technological expertise and, thanks to his insistence, so are the gadgets and gizmos that the company owns. He makes passionate presentations about the need to keep updating the company's technology but doesn't think it's necessary to present a lot of detail, including the financial implications. "Technology will make us stronger" is his motto.

What do these three managers have in common? They share a focus on their own job responsibilities to the exclusion of the bigger picture of the company. They don't look at the numbers as a whole or consider how the work they are doing aligns with company strategies and initiatives.

Are they bad managers? Maybe. Maybe not. But one thing is certain: They would be better managers if they had an enhanced understanding of business acumen.

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WHAT IS BUSINESS ACUMEN?

The dictionary defines acumen as "quickness, accuracy, and keenness of judgment or insight," especially in practical matters. The word comes from the Latin "acuere"—the root of "acute"—and it means "to sharpen."

Business acumen is an acute understanding of how a business works and what it takes for the enterprise to make *money*. It combines financial literacy—the ability to understand numbers on financial statements—with *business* literacy: Recognizing how strategies, behaviors, actions, and decisions not only affect the numbers but also drive profitable and sustainable growth.

Consider this example: In team sports, players need to know how the game is scored. To affect the score, they need to know how to play the game. In business, financial literacy is understanding the score and business acumen is knowing how to impact it.

On any business team, managers with basic financial literacy can read a company's income statement by relying on a fundamental understanding of financial terms, ratios, and what the numbers represent. But that's about it.

Managers with business acumen, however, can interpret that income statement—what the numbers really mean—and act accordingly. With a solid understanding of industry, market, and financial information, they have a clear view of the company's current realities and potential opportunities. They are able to analyze and apply diverse financial data to the development of strategy. Most important, they can make decisions that lead to increases in profit or cash flow because they know how their actions affect the numbers and vice versa.

Some business analysts define business acumen as the ability to engage in big-picture thinking and to understand the organization's financial and strategic issues—the relationships between actions and consequences—within a holistic context. The managers who understand all the business drivers and key financial levers, as well as the relationships between them, are able to assess the total financial health of the business.

They have a clear understanding of not only how the business works but also how it sustains profitability, so they can figure out how their contribution can positively impact the bottom line. They make more profitable decisions, influence top-line revenue generation, establish priorities, and take actions that align with organizational and customer strategy.

As leaders, managers with business acumen are able to break down organizational silos, bridge communication gaps, and engage the employees they manage, so the entire workforce can understand how the company operates and how each person can contribute to the company's success.

BIG-PICTURE THINKING

While a holistic view of the company is a by-product of business acumen, it is not the norm. The common reality is that employees' main goals are to master their own business processes within their departments or functions. Like Ted, Sara, and Amit—the three managers introduced at the beginning of this white paper—they don't necessarily think about how the pieces fit together and how they affect the company as a whole. But leaders in today's complex world need to take a broader view and make decisions within that context.

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In his critically acclaimed best-selling book "A Whole New Mind" (Riverhead Hardcover, 2005), Daniel Pink explains that we have moved into a "conceptual" age from the "information" age, and that requires a different kind of thinking—bigger picture, more holistic, more creative, and more empathetic.

He writes about the six high-concept, high-touch senses that are critical for managers to develop in our new conceptual world. One he calls "symphony."

"Symphony is the ability to put together the pieces … the capacity to synthesize rather than to analyze; to see relationships between seemingly unrelated fields; to detect broad patterns rather than deliver specific answers; and to invent something new." (p 126) He also says that "seeing the big picture is fast becoming a killer app in business." (p 137)

WHY IS BUSINESS ACUMEN SO IMPORTANT?

In a recent SmartMoney.com interview, Gary Kelly, CEO of Southwest Airlines, was asked about the economic downturn. He said:

"… the speed at which we need to identify issues, study them and make decisions is unlike anything I have experienced before. Anytime you have that many points changing that rapidly, there are bound to be some rough spots. A couple of years ago, we had record earnings, so we were making plans with a lot of comfort. But we've lost our cushion now, so we have to manage our risk much more carefully."

Southwest Airlines is a highly successful business. But the company recognizes the need to be on high alert to changes and knows that decisions and actions made every day must align with marketplace conditions and customer preferences.

For organizations today, no matter how successful, it's critical for leaders to be able to accurately assess the competitive landscape and connect day-to-day decisions and activities with key financial, functional, and business performance metrics and goals.

Every key player must have a comfort level with how their company makes money and every enterprise must depend on the ability of these key players to connect and manage human, financial, and information resources strategically.

The best managers know that having a strong, comprehensive understanding of their business is critical to knowing which opportunities to grab and which to ignore. They recognize the importance of having a holistic understanding of their organizations' financial and strategic realities. In other words, they are business savvy—no matter what department they are in—and know how to use that knowledge to align their departments and personal objectives with the company's overall strategy.

Too often, however, managers don't understand enough about the business of the business to make solid strategic decisions. In fact, at many companies if you asked non-financial managers—like our friends Ted, Sara, and Amit—the following questions, you might get more blank stares than answers:

- What are the most important ways that our business makes (or loses) money?
- What's the difference between profit and cash—and why is it important to closely monitor both?
- How do initiatives like quality/process improvements, capital investments, accounts payable strategies, and inventory management specifically affect financial success?

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- In what ways do the goals of your department align with the organization's strategic and financial objectives?
- If we discount our products by 10 percent, how much will that impact our profitability?
- What is the difference between our company's income statements, cash flow statements, and balance sheets? What do each of them "tell" us about the business?
- What is involved in investing for the future (technology, new product development, etc.) while balancing short-term profitability and shareholder return?

Without adequate business acumen, managers can't align their priorities with those of the company or help employees engage with the company's vision and goals. This narrow focus on their own departments and job functions prevents them from understanding how what they do rolls up into a financial statement or affects their customers, so there is no sense of urgency. And when income statements, balance sheets, cash flow statements, asset management initiatives, and other financial concepts are misunderstood or misused—and when managers don't grasp the connection between these financial concepts and corporate vision, goals, and strategies, they can't be effective leaders for the organization, themselves, or their teams.

Multiplied by hundreds or even thousands of employees, this gap in understanding the basics of the business, operating goals, and competitive comparisons means that too many decisions are being made and too many actions are being taken that don't align with business objectives. And this widespread lack of business acumen represents a critical need at an especially critical time.

SURVEY SAYS…

Lest you think the dearth of financial literacy and business acumen is an isolated or inconsequential problem, consider the following:

*Karen Berman and Joe Knight, co-authors (with John Case) of "Financial Intelligence: A Manager's Guide to Knowing What the Numbers Really Mean" (Harvard Business Press, 2006), believe "financial illiteracy in the managerial ranks can be a crippling weakness for organizations…. If you don't know what goes into a number, you can hardly know how to improve it."**

Berman and Knight maintain that if managers can't speak the language of business, they can't be active contributors to any discussion of performance. They may be caught off-guard by financial improprieties—consider Enron —and they certainly can't be effective in leading change.

So Berman and Knight set out to find out just how much managers really understand about finance.

They asked a representative sample of U.S. managers from C-level executives to supervisors to take a basic financial literacy exam. It was a test that, according to the authors, "any CEO or junior finance person should easily ace." The results were sobering.

Participants scored an average of only 38 percent on the test. The majority of participants were able to distinguish profit from cash. Many, however, did not know the difference between an income

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statement and a balance sheet. About 70 percent could not pick the correct definition of "free cash flow"—currently a key measure for many Wall Street investors.

Another recent (January 2008) survey by the Institute for Corporate Productivity (i4cp) also revealed that the lack of business acumen is more common than you might think. After polling nearly 400 executives across the country, i4cp found that four out of five think there is a moderate to very high level of deficiency in business acumen within their organizations.

*The study also indicated that the consequences of a lack of business acumen are significant. Sixty-seven percent of respondents thought the knowledge deficiency among organizational leaders had a high to very high negative impact on their organizations, while an additional 25 percent found the impact to be moderate.***

**Harvard Business Review, October 2009*

***Talent Management magazine, March 2008*

WHY DO LEADERS NEED BUSINESS ACUMEN NOW MORE THAN EVER?

What's raising the stakes right now for managers is the growing complexity and uncertainty of the rapidly changing global business environment.

In his book "What Leaders Really Do" (Harvard Business Press, 1999), John P. Kotter wrote that the "increasingly fast-moving and competitive environment" in the 21st century "demands more leadership from more people to make enterprises prosper. Without that leadership, organizations stagnate, lose their way and eventually suffer the consequences."

Certainly the role of manager has evolved a great deal over the last decade from simply getting the job done as efficiently as possible to playing a pivotal part in aligning performance with corporate strategy. In today's highly charged marketplace, leaders are challenged like never before to make the connection between what's happening in the world at large with the finer points of how the business functions internally. As their role in executing strategy continues to expand, they are accountable for making crucial, real-time decisions that directly affect financial outcomes at the unit and at the corporate level. To succeed, they need to have the insight and perception to balance the big picture with the day-to-day basics of doing business.

For today's manager, these "basics" include everything from leading change initiatives to talent management. On top of everything else, managers are increasingly in charge of retaining and developing high-performing teams and engaging employees with the organization's goals and objectives.

Pulled in so many directions, it's easy for managers to miss the forest for the trees. Without a clear understanding of both the external and internal landscape, they are more likely to develop the wrong capabilities, set the wrong goals, hire the wrong people, and enter the wrong markets. Worst of all, without a clear vision of financial objectives and metrics, they may fail to recognize the challenges the business is facing, the concerns of their people, and the impact of their decisions on the bottom line.

Quoted in a March 2008 article in Talent Management magazine, Mark Vickers, vice president of research for i4cp, deems it a precarious situation. "[At the management level], decision-making ability is much greater, they have much more power, and therefore their ability to make mistakes is much greater," he said. "It's like a lifeguard going in and

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trying to save someone, but being pulled under because they really don't know how to swim very well themselves. They're not just hurting themselves, they're hurting the people that they're trying to save."

The good news is that business acumen can be learned. And as more and more organizations and government agencies identify business acumen as a core leadership competency, business acumen training is quickly becoming one of the most sought-after and strategically important learning initiatives.

WHAT DOES THIS MEAN FOR BUSINESS ACUMEN TRAINING?

Until recently, business acumen has been a missing link in leadership and management curricula. Following standard operating procedure, many fundamentals of business such as accounting, economics, and business law are taught in business schools. These disciplines, however, are often specialized and segmented from the whole of running a business.

Finance for nonfinancial manager courses also have become more available (and often avoided!) as awareness of the need for financial literacy has grown. However, a basic financial course that focuses on terminology, ratios, and financial statements isn't enough to arm managers for the current challenges of doing business. Instead, the key to producing real results is the development of higher levels of business acumen: going beyond basic financial literacy to a true understanding of what it takes for a business to make money.

Workforce development leaders are rapidly recognizing that business acumen training puts all of the organization's other development efforts into the context of executing corporate strategy. It not only teaches managers how to make faster and better business decisions, but also it aligns everyone around a common language, provides clarity of purpose, and shows them how to leverage all their skills to strengthen the company's financial position.

Business acumen training also gives managers the tools to engage their teams in ways that build loyalty, increase their "ownership" in the process of building the company, and aid with employee retention.

WHO NEEDS BUSINESS ACUMEN TRAINING?

The question of who in an organization needs business acumen training is difficult to answer precisely. The truth is, any manager at any level stands to benefit. Providing business acumen training is an important investment in the development of all types of key contributors to revenue growth and profit achievement.

Some senior leaders—despite years of experience and education—can realize significant benefits, especially if the training takes their experience into account and concentrates on the key ways decisions and actions at senior levels impact the numbers. Often these successful professionals have excelled in their specialized disciplines—perhaps sales, engineering, marketing, HR, or logistics—and have assumed expanded management responsibilities. Now they may need to develop a more holistic understanding of the business of doing business. Business acumen training can be a real eye-opener, or at the very least a great refresher, even for those with advanced business degrees and lots of experience.

At middle and lower manager levels, it is almost always a good idea to develop higher levels of business acumen. Even when they think they know a lot—or if they have academic credentials

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and demonstrate a significant amount of financial literacy— managers might not be making the right connections between their own behaviors, actions, and decisions on the department's or company's financial and strategic success. It is also likely that they struggle with explaining the numbers—or the business—to employees in ways that make sense and involve them in achieving goals. Business acumen training can make all the difference.

Some other target audiences:

- **High potentials:** Employees with leadership aspirations are ideal candidates for business acumen training. It can equip them with critical business knowledge and skills that might otherwise take years to develop.
- **Financial professionals:** Just because accountants understand the books doesn't mean they have business acumen. Accountants, auditors, investor relations managers, and other financial professionals who report up through the CFO can often benefit from increased business acumen. While they understand the books, they might be struggling to communicate the relationship between financial numbers and corporate strategy.
- **Sales professionals and sales managers:** Sales professionals often find it difficult to get an audience with C-level decision makers, and when they do they can become intimidated. It might not be a lack of confidence or sales savvy, but instead a lack of business acumen. Sales professionals with business acumen understand how their clients make money and how their products or services will help impact financial success. And sales managers with business acumen knowledge and skills can coach teams to use a business-savvy approach in critical sales situations.
- **Technical professionals:** Business acumen can help technical employees become better at what they do. For example, an engineer with business acumen could analyze the cost advantages and disadvantages of using one material over another. IT professionals could use their business acumen to better understand the needs of their internal customers and how their service affects efficiency, and how efficiency impacts the numbers. HR professionals could make better connections between people development, compensation, and other employee-related initiatives and overall corporate strategy.
- **Team leaders:** Managers or professional employees who are responsible for leading projects and/or processes need business acumen training to ensure alignment of these initiatives with the company's strategies and objectives. Business acumen also gives them a better financial "lens" through which to evaluate project success.

As with any workforce development initiative, it is important to assess and customize business acumen training to meet specific needs—of both the learners and the business. One size doesn't fit all. However, there can be some benefit to using a consistent, "foundational" program and customizing or expanding it for different audiences.

WHAT KIND OF BUSINESS ACUMEN TRAINING IS MOST EFFECTIVE?

Determining what a foundational business acumen training program should look like depends to some degree on the education, experience, and competence level of participants and the business realities facing the organization. But the basic rules of effective adult learning delivery still apply.

First, business acumen training has to be engaging and energizing enough to overcome

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the "oh no" factor typically associated with any training that is "financial." Making it palatable to possibly reluctant learners and maximizing participant engagement are key.

Second, it can't overwhelm and frustrate learners by going beyond the needs of the audience. Three days of training around financial terms and statements, for example, is generally not necessary for those who aren't in finance jobs.

Since the focus of business acumen training for managers is, of necessity, at a higher level than most skills-based development, relevance also is essential. It's not just about learning specific skills, but about driving insights about the enterprise as a whole. Can the learners take the experience and apply it directly and immediately to their role in strengthening the financial performance of the company?

Finally, it needs to be memorable. Conventional wisdom shows a huge gap between knowledge retained from traditional instructor-dependent classroom training and knowledge gained from more interactive learning experiences. According to some estimates, most people retain just about 5 percent of learning from a lecture, compared to about 75 percent when they are actively involved in their learning experience.

Given the considerable spike in retention of learning gained from hands-on experience, it stands to reason that experiential learning, or discovery learning, is rapidly gaining popularity for teaching business acumen—especially to manager-level audiences.

Simulations based on real business dynamics and learning experiences that use games, stories, and role-playing provide multiple opportunities for these learners to practice and improve decision-making. By allowing participants to act out and affect real outcomes—without real-life risks—they provide the context and consequences managers need to clearly visualize the impact of their actions on the organization as a whole. This kind of "learning by doing" enables them to not only absorb essential concepts but also transfer their knowledge directly to the workplace as changed behaviors.

WHAT HANDS-ON BUSINESS ACUMEN TRAINING LOOKS LIKE

Paradigm Learning's approach to business acumen training incorporates a foundational discovery learning simulation called Zodiak®: The Game of Business Finance and Strategy. Many organizations are using this simulation, along with customized learning components that support and reinforce it, to enhance the business acumen of their executives, managers, team leaders, and other key employees.

Zodiak is a high-energy discovery learning experience that uses game boards, stories, audio clips, and other techniques to engage and energize learners. In a classroom setting, small teams gather around a game board and become the new owners of the struggling Zodiak company. After signing for a bank loan, attracting investors, purchasing equipment and materials, and investing in new product development, they begin delivering products and services to customers. Over the course of three business years, they handle chance events and make critical decisions around strategic issues such as capital investments, staffing, pricing, new products, and more. And, each year, they analyze their results and answer to investors.

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Very quickly, learners develop new insights—not just about how the numbers work, but also about the consequences of business decisions and how their actions affect financial success.

Customized '"Connections" exercises bridge from what participants learned during the simulation directly to the realities, challenges, and opportunities of their own enterprise. Learners explore strategies, processes, financial concepts, terminology, profit drivers, cash flow, and the competition to understand the impact of their own day-to-day decisions and actions. And, they plan for ways to use their new insights to make a difference in their de`partments and companies.

Managers and employees leave Zodiak training with significantly increased knowledge and skills. On the job, they are better able to:

- *Use relevant financial data and analysis in day-to-day decision making*
- *Apply their understanding of the organization's strategies and financial objectives to engage teams/employees in the business of the business*
- *Ask insightful questions to clarify financial and strategic objectives when implementing new systems, processes, or procedures*
- *Align personal and department goals with the organization's financial objectives and strategies*
- *Use financial terminology and concepts more confidently in their work with others*

THREE MANAGERS REVISITED

The learning outcomes for effective business acumen training are impressive. Learners come out with not only a practical combination of knowledge (insights) and skills (on-the-job behaviors) but also an increased competence and confidence in their ability to define and accomplish goals.

Let's take a look at our three managers—Ted, Sara, and Amit—after they completed business acumen training.

Ted, the Operations Manager, is no longer averse to change. He's able to see new processes, systems, and procedures that affect his department in the context of how they support and align with the company's financial and strategic objectives. After business acumen training, he is able to confidently define and use common financial terms, like assets, liabilities, equity, depreciation, and cash flow, and explain department/team goals in relation to the numbers. He can communicate the company's strategies effectively and engage and enlist the employees in his department in achieving them.

Sara, the Sales Manager, now recognizes that sales acumen—building rapport, overcoming objections, having deep product knowledge—isn't enough to drive success. By understanding how the whole business works and how it makes money, she can create competitive advantage in a more profitable way. After business acumen training, she fully understands the impact of product discounting and/or price increases on profitability and sets her team's sales strategy to create value, not just beat out the competition. Now, she is as comfortable discussing metrics, throughput, ratios, and ROI with a client as she is discussing product features and benefits. And she can better coach her team to do the same.

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Amit, the IT Manager, is still way ahead of everyone else when it comes to technological expertise, but now he also has the financial literacy and business acumen to apply that expertise to driving profitability and sustainable growth for the company. He can use his understanding of business dynamics to compute and analyze key financial metrics and evaluate investments in new technology against short-term profitability, shareholder return, and long-term competitive advantage. When he pitches new technology to the organization's leaders, he uses financial terminology and concepts confidently and convincingly. As a result, they are able to understand how these investments align with strategic goals and impact financial success.

SUMMARY

In too many organizations today, business acumen is a missing leadership competency. A quick look at these enterprises reveals an unsettling reality: Managers without business acumen don't understand key financial levers and critical financial concepts. They are unable to interpret financial statements as well as they should and don't know how profits and losses interact with the company's balance sheet. They lack an in-depth understanding about the interrelatedness of their decisions and the profitability of the company, and they struggle with articulating the company's strategy or how their actions—and those of their teams—contribute to its execution.

Yet all these things link directly to business success and sustainable growth in today's highly competitive and volatile business environment.

As a result, business acumen training has leapt to the forefront of workforce learning and development. More business acumen and financial literacy courses are finding their way into leadership and management curricula at top companies and universities. And more learning providers are developing robust, interactive, and hands-on learning experiences geared specifically to helping managers acquire and sharpen their business acumen.

For managers undergoing this kind of business acumen training, the knowledge, insights, and skills they develop can pay big dividends for the company and for themselves. The basic principles of sound business practice are demystified. With a deeper understanding of the financial workings of the organization, they can articulate the strategy behind the organization's numbers and explain how critical enterprise-wide initiatives affect financial success. Most important, they understand how the goals of their departments and teams align with the organization's strategic and financial objectives, and how their own personal actions and decisions affect the bottom line.

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PARADIGM LEARNING

Since 1994, we have specialized in business acumen training to develop a business-savvy, mission-focused workforce. With an alumni population of almost 2 million participants, our unique and innovative business acumen solutions have reached leaders and team members around the world and across every industry. We leverage immersive classroom-based simulations, developed with gaming elements that drive participants to understand sophisticated business concepts, leadership skills, and financial terms in an exciting and unforgettable way. We have worked with some of the biggest and best organizations in world to foster an ownership mindset and decision-making prowess in their employees through experiential learning.

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