



Catalysts for Profitability and Growth

Business Acumen

Results and Analysis from

EDA Survey

March 2007



Executive Development Associates, Inc.

Business Acumen

Question:

“When you think about improving your organization’s ‘bench strength’ or talent pipeline, how important is business acumen relative to other competency areas?”

Response:	1-5 billion	11+ billion
Extremely/very important	84%	81%
Somewhat or not important	16%	17%

Implications:

81%, or more, say it is extremely or very important compared to other competency areas. Oddly, it is not a development priority for many organizations, though some elements of business acumen may be.

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Question:

“To what extent does a lack of business acumen interfere with your manager’s ability to execute CEO strategy?”

Response:	1-5 billion	11+ billion
To some or to a great extent	88%	48%
To a limited extent or not at all	12%	52%

Implications:

Not clear why significantly lower score for 11+ billion organizations. Do they have better resources for strategy execution?

Strategy execution is highly valued by Wall Street (E&Y study); as much as 35% of decisions by “buy–sell analysts” reflect their view of how “intangibles” create market value. The most important intangibles identified across all industries were “strategy execution” and “quality of management.”

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Definition Used for This Survey

“Linking an insightful assessment 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, e.g. how to make money.”

Ram Charan

Business Acumen Skill Set

- Skills in external landscape assessment
- Deployment of core expertise to environmental opportunities
- Skills in cash generation, return on assets, profitable growth and their relationship to each other
- Skills in strategy formulation and in strategy execution
- Pulling it all together: see larger perspective; recognize key organizational interdependencies

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Using Ram Charan's definition, participants were asked, to what extent his definition fits the capability of your GMs and P&L managers.

Response:	1-5 billion	11+ billion
To a great extent	8%	28%
To some extent	84%	63%
To a limited extent or not all	8%	9%

Implications:

If we assume “to a great extent” means capability of at least 50% fit the description, then 92% of those with P&L line authority lack at least some of this capability. Some organizations entrust GM's with hundreds of millions of assets, though some managers have only **“some of the capability”** needed for superior business acumen. Some only have cost and budget responsibility and limited contact externally, which may contribute to the “some” scores?

Business Acumen

Question:

“To what extent do P&L managers demonstrate deep insight about their external landscape: the economic, political, competitive and cultural factors which affect profitability?”

Response:

	1-5 billion	11+ billion
To a great extent (assume 50% +)	12%	15%
To some extent	64%	65%
To a limited extent or not all	34%	20%

Implications:

This suggests 60% at best have some of this expertise and 30% have little or none at all. These are existing managers. How can agility be demonstrated and strategy formulated well when key P&L manager lack the expertise to continually monitor the external environment and spot trends early?

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Question:

“To what extent do P&L managers demonstrate Capability in fundamental building blocks of money making such as profitable growth, net income and their relationship to each other?”

Response:	1-5 billion	11+ billion
To a great extent:	8%	24%
To some extent	56%	57%
To a limited extent or not all	36%	19%

Implications:

Suggests about 60% of existing P&L managers have some capability and **29% have little or no capability** here. Low scores, if validated, should concern the Board and imply risk regarding Sarbanes-Oxley.

One question; are Finance Departments taking responsibility to assure current and future business leaders have the skills they need?

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Question:

“To what extent do your managers with profit and loss responsibility continuously inform their people of how their actions affect profitability?”

Response:	1-5 billion	11+ billion
To a great extent	24%	8%
To some extent	47%	48%
To a limited extent or not at all	29%	44%

Implications:

Many organizations have made major efforts to align lower and middle level goals with core strategies and larger organization goals. They call this “line of sight” and it is a form of communication. These scores raise questions about how well or how often line of sight communication is done and to what extent business leaders are accountable for it?

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Question:

“If you use business acumen simulations, to what extent do they provide greater learning and skill development than other learning techniques to strengthen business acumen?”

Response:

	1-5 billion	11+ billion
To a great extent	28%	33%
To some extent	20%	22%
To a limited extent or not at all	8%	4%
Not used business simulations	44%	40%

Implications:

Of those who use business simulations, **90% say to a “great extent” or to “some extent”** they provide greater learning and skill development than other teaching/learning techniques to strengthen business acumen. For the 11+ billion organizations **56% say to “great extent”** simulations provide greater learning and business acumen skills than other methods.

Business Acumen

Question:

“To what extent are high potentials managers and future business leaders held accountable for building internal & external network contacts and resources in their industry and outside?”

Response:	1-5 billion	11+ billion
To a great extent	8%	20%
To some extent	16%	24%
To a limited extent or not at all	76%	56%

Implications:

Given evidence that 90% of GMs say they were not prepared when promoted, organizations miss an opportunity to better prepare GMs for uncertain external demands on them. Most are too inwardly focused. In the 1-5 billion organizations, who are in great need of business leaders, 76% do little or no advocating network development.

Business Acumen

Question:

“To what extent does your organization use these activities to develop business acumen?” (1 -10 scale)

	1-5 billion	11+ billion
Expect managers to develop business acumen on-the job	8.1	8.2
Use senior managers as coaches and mentors	6.0	7.0
Use functional excellence programs (Finance, marketing, etc.)	4.5	6.2
Develop comprehensive, in-company executive programs	5.0	6.1
Target cross-rotational assignments to other line and staff groups	4.0	5.8
Use rotational assignments to global locations	2.6	5.9
Send General Managers to external executive programs	4.0	5.0
Have programs on negotiation skills	4.1	5.6
Use business simulations to develop profit and loss experience	3.6	4.5
Develop & deliver programs on “Critical Thinking” (Risk Management)	4.0	3.8

Implications:

Strongest reliance is on-the-job experience and coaching for business acumen. Relying mainly on “on-the-job experience” effectively wastes the time of team members until expertise is developed. Larger organizations are twice as likely to use cross functional assignments. External executive programs used somewhat are business simulations, though highly valued by users, are a lower overall choice.