



Business Acumen for the 21st Century: Moving from Strategy to Action

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Business Acumen for the 21st Century is a new, robust and adaptive framework to help executives think about the critical capabilities and leadership skills needed to navigate intensely competitive markets. With volatility, uncertainty, ambiguity and the rate of disruption increasing to unprecedented levels, leaders need new skills to help their companies turn strategy into action. The five pillars of business acumen discussed below will equip your leaders and managers to compete and win in the 21st-century business landscape.

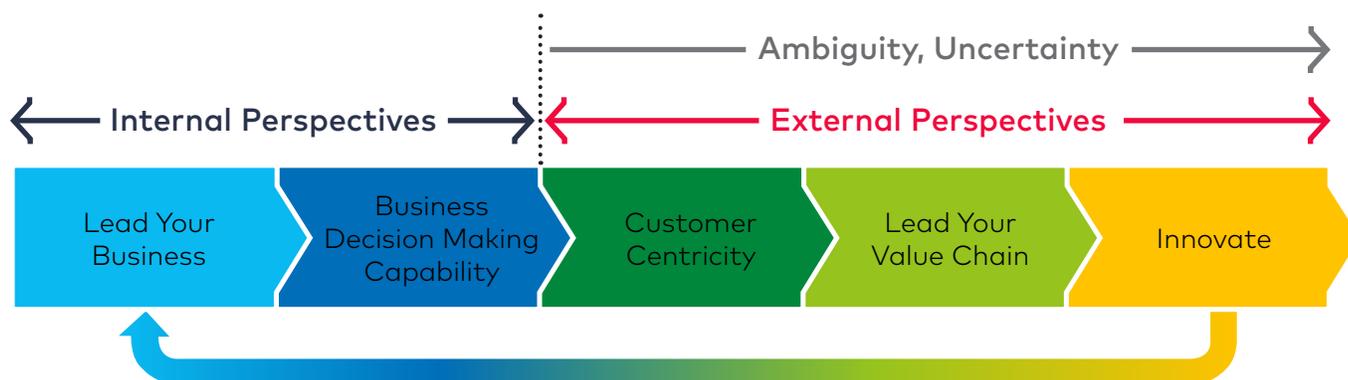
Over the past 30 years, we have worked with the world's leading companies on their strategy execution initiatives, and we've noticed a pattern. While each company's strategic journey is unique, one issue remains constant: business acumen is required in order to make the right decisions at the right time and turn strategy into action.

What is business acumen? Business acumen, also referred to as commercial acumen, is defined as an intuitive and applicable understanding of how a company makes money and includes strategic thinking, financial acumen, market orientation, innovation, collaboration and influencing skills.

Research conducted by the Economist Intelligence Unit (EIU) and sponsored by BTS found that over 65 percent of surveyed senior leaders agreed that insufficient business acumen was a primary factor in limiting their organization's ability to realize strategic goals. In addition, those who were market leaders in revenue growth were significantly less constrained with business acumen than those who performed below average – highlighting that business acumen capabilities may directly impact a company's overall performance.

Business Acumen for the 21st Century has five distinct pillars. The first pillar, **"Lead Your Business,"** is, at its core, understanding how a company makes money and the levers that can be pulled to create value. It is also the capability to see the bigger picture of your business outside of your function. Understanding the interdependencies that exist between functions and business units, and how these relationships drive enterprise value creation, is a critical first step. Adjacent to this broader strategic understanding is the second pillar, **"Business Decision Making Capability."** This pillar captures the fact that there are hundreds of tactical decisions across functions, management layers and budgets that must be mastered for a strategy to succeed.

The third pillar, **"Customer Centricity,"** is a marked shift from internal to external business perspectives. Customer centricity is about understanding the customer's business with the intention of being a better partner and increasing customer loyalty and market share. The fourth pillar, **"Lead Your Value Chain,"** is about having a deep understanding of and navigating the uncertain and unpredictable aspects of your broader industry value chain or ecosystem. This value chain or business ecosystem includes suppliers, customers and important alliance partners. Finally, **"Innovate"** is about developing the adaptive capabilities and innovation leadership skills needed to thrive in 21st-century markets. If you don't refresh and disrupt your organization's cherished beliefs, someone else will. This last pillar is about product, process and business model innovation which, in turn, cycles back to "Lead Your Business" and creates sustainable growth.



Lead Your Business

First and foremost, every leader needs a **comprehensive understanding of their business and how it creates value** in order to achieve successful strategy execution. They need to have a thorough understanding of their business model(s) and company strategy. Leaders need to have a firm grasp of key success factors for both their core business and their emerging businesses. Within that context, they need to have the financial acumen and strategic thinking skills to know how to drive growth, profitability and cash flow.

Business leadership is a team sport – that's why business acumen is best developed through **powerful experiences that immerse cross-functional leaders in managing enterprise value together.** These experiences allow teams to "test drive" new strategies and practice the strategic implementation they need to be successful on the job.

Business Decision Making Capability

While high level strategic perspective is key in today's approach to business acumen, leaders and managers need opportunities to practice with critical daily business decisions and trade-offs.

Under the canopy of a company's strategy, there are hundreds of decisions across multiple functions and management layers that have significant implications for revenue, profit, assets, cash and competitiveness. These decisions cannot be mandated by a top-down approach – decision rights must be broadly distributed for an organization to maintain agility.

This means all non-financial managers and leaders need to know how to manage budgets and forecasts and understand financial statement implications. We've seen many clients pushing ownership of business and financial trade-offs deeper into their organization and even out to the frontline. To do this successfully and not create additional risk, decision-making capability must be intentionally built. **By fostering a "run it like you own it" mentality, you can improve decision making at all levels.**

Learning these critical skills is like learning to ride a bike. They are hard to master by being told how to do it or by reading about them – rather, they are best learned by doing. Research from the EIU and BTS has shown that companies are increasingly looking to shift mindset and build these capabilities not through traditional on-the-job experience or expert-led lectures, but rather through business simulations – the use of which is expected to increase by 140 percent in the next five years. A well-designed business simulation and dynamic decision-making tools are proven to significantly accelerate decision making capability.



A semiconductor company needed to increase cash flow to meet street expectations. The problem: over 70% of their employees, from executive to individual contributor, could not define cash flow or identify the levers that drive cash flow. The CFO commissioned the creation of a 'cash conversion cycle' decision-making tool built off of real-life scenarios. The real-life practice embedded in the experience demystified the relationships between daily business decisions and cash flow implications. The experience culminated in managers using the cash flow tool to create plans which drove cash flow improvements across the company.

Customer Centricity

Customer centricity is the first step on the journey to being 'externally focused'. **Putting customers at the center of your decision making is now a requirement to sustain differentiation and competitiveness.** However, we find that many finance and business managers are much more comfortable with a product-centric, inward focus. Managers gravitate toward internal management issues that are controllable and predictable, such as costs, inventory, head count, etc.

Customers can be unpredictable; customers can't be controlled. But your leaders cannot have strong business acumen without deep knowledge of the drivers of their customers' competitive advantage and profitability. Deep knowledge of your customers' businesses, coupled with the innovation of solutions that accelerate your customers' business results, leads to increased customer loyalty. Loyal customers buy more over time and refer new customers, increasing revenue, margin and market share. **Business acumen without a deep bias for customer centricity is like driving a car with a blindfold on.**



Two of the world's leading consulting/professional services companies put customer-facing teams through experiences that allowed them to run the customer's business. To do so, each of these companies commissioned the creation of over 15 industry business simulations. These experiences allowed them to immerse their consultants in the customer's business challenges, metrics and language. This made their customer-facing teams more intuitive about customer challenges, and allowed them to position and shape solutions that accelerated customer business results.

Lead Your Value Chain

Linear customer/supplier relationships are being replaced by complex value chains and ecosystems. **Business leaders today need to be able to "see around corners" and seize opportunities to be more collaborative with organizations outside of their traditional spheres of influence.** The old go-it-alone "business fortress" mindset is being replaced by the need to share business insights and priorities between customers, suppliers and alliance partners.

In rapidly evolving industries like healthcare, for example, the interplay between insurance companies, hospitals, pharmaceutical suppliers and government officials needs to be understood and navigated successfully by managers across all the connected organizations.

Retailers everywhere are being challenged by the transition to omni-channel, requiring leaders to think more broadly about consumer/shopper trends and form new alliances to drive execution.

In technology markets, many customers are competitors and vice versa. These evolving industry landscapes create new opportunities, as well as new risks. To manage both, BTS believes that companies must create experiences for their leaders and managers to network, build relationships, increase exposure, brainstorm and collaborate across companies and industries.

Too many managers today have been raised inside deep internal silos, yet business ecosystem thinking is a rapidly emerging key success factor for business acumen in the 21st century. This is an area fraught with uncertainty and ambiguity, yet we see enormous opportunities for companies that embrace ecosystem thinking/exposure as part of general manager business acumen development.

One of the world's largest retailers knew their executives needed more exposure/ experience with key value chain supplier/partners. This retailer invited two leading consumer packaged goods companies to co-create a powerful learning experience that modeled the entire retail-consumer packaged goods value chain and fostered deep collaboration. This unique 'joint maneuver' enabled executives from the three companies to understand each other's time horizons, KPI's and consumer/shopper trends. This increased cross-company collaboration and focused all sides on new, mutually supportive growth initiatives.

Innovate

The capability to innovate has traditionally been considered separate from business acumen. However, BTS' point of view is that innovation is no longer the secretive domain of the R&D department and measured by "# of patents." **Product, process and business model innovation means that all managers in all functions can influence and lead innovation.**

Innovation and innovation leadership are also teachable skills: rapid prototyping, design thinking and co-creation with customers and partners must be developed and practiced by all managers for your company to stay competitive. In this new environment, leaders and managers need to be able to do two things at once: protect and grow the core business, while launching successful new businesses.

In the graphic above, the arrow that leads from "Innovate" back to "Lead Your Business" is critical: the virtuous cycle between the two represents **your company's ability to continuously adapt and refresh growth**. BTS continues to pioneer experiences that seamlessly mix business acumen and innovation skills, all in service of helping our clients sustain profitable growth.

A Media and Entertainment giant needed to stimulate growth in their business. The problem: the core of their business model and industry ecosystem was being disrupted. They created an experience that took the mystery and misery out of innovation leadership and execution. The experience led to an increase in innovation activity within the first three months of launch. By the end of the year, six revenue generating innovations had been funded and launched. At the time of this writing, the company is developing a second wave of internal innovation champions to accelerate the effort.

Conclusion

Business Acumen for the 21st Century is a clarion call for line executives and talent leaders to think differently about what leaders need to compete and win. The framework has both internal and external perspectives, and calls out these major distinctions. Senior leaders, high potentials and broader manager populations all need these capabilities to lead their companies to sustainable growth. Developing these capabilities will create strategic alignment, improve business decision making, focus leaders on customers and markets, and teach leaders how to manage risk and embrace innovation.

Imagine your leaders and managers at all levels having the capabilities listed above? What would the implications be for the following areas in your company?

- Top-line growth, margins, cash flow?
- Speed and agility in execution?
- Customer loyalty and market share?
- Your company's ability to navigate and influence industry "control points" to its advantage?
- Your rate of innovation in product, process and business model innovation?

Business Acumen for the 21st century provides a robust framework for prioritizing what capabilities need to be developed in the business acumen arena. By building these capabilities in alignment with your company's strategy and business models, you will accelerate how your company turns strategy into action.

About BTS

BTS focuses on the people side of strategy, working with leaders at all levels to help them make better decisions, convert those decisions to actions and deliver results. At our core, we believe people learn best by doing. For 30 years, we've been designing fun, powerful experiences™ that have profound and lasting impact on people and their careers. We inspire new ways of thinking, build critical capabilities and unleash business success. It's strategy made personal.

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