

Why Executives Need to Enhance Their Business Acumen

Written by Henrik Ekelund



Do Executives Know it All?

“I have been the CEO of our Brazilian operations, running the business here for 12 years. Before that I had nine years of sales and marketing roles in three other countries. What can you possibly teach me and my senior leaders about running this business better?”

I was interviewing the senior leader of a multi-billion dollar division of a Fortune 100 Company. I had heard similar opening lines from senior executives countless times before.

“Let me be honest, Henrik. Although you seem to be a nice man, I suggest we close down your project now. We do not need any business acumen development for our top 275 executives. We have already acquired business acumen through all our years of experience.”

Challenging meetings like these have always excited me. Before I tell you how the meeting ended, let us look a bit closer at the statement above. Do senior business executives usually have all the [business acumen](#) they need? After all,

they do have vast amounts of business experience.

Business Acumen Defined

First, we need a definition of business acumen. Here is the one we use at BTS:

Business acumen is an almost intuitive and applicable comprehension of how your company makes money, built up of three main capabilities:

1. A backbone understanding of **what drives profitability and cash flow**
2. A **market-focused approach** to the business
3. An overall **big picture understanding of the business** and its interrelationships

Together, these three tenets enable leaders to make better business decisions.

The Data Says No...

In order to answer the question we started with—“Do executives need to develop

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their business acumen?”—let us look at the data from three sources:

1. The Institute for Corporate Productivity conducted a study in 2010, where 400 leaders in American businesses responded to questions concerning business acumen. The results: “Eighty percent of the respondents think there is a moderate to very high deficiency in business acumen within their organization. In addition, sixty-seven percent of respondents thought the knowledge deficiency among organizational leaders had a high to very high negative impact on their organizations.”¹
2. McKinsey’s report, “Governance since the Economic Crisis”, which surveyed 1,597 corporate directors in April 2011, reveals that knowledge is still lacking at the executive level. Only 36 percent of respondents say that they have a complete understanding of their company’s financial positions, and only 21 percent say that they have a complete understanding of their current strategy.²
3. At BTS, we have trained over a million leaders around the world in business acumen through online, virtual and instructor-led workshops which leverage interactive custom [business simulations](#). Of this total population, more than 250,000 have been executives (vice president and above). The average rating from

these executives on “the value of these business acumen programs to them as decision makers in their companies” exceeds 4.7 on a scale of 1-5 (1=Fair, 5=Excellent).

Bear in mind that executives typically are somewhat skeptical at the start of these programs— not unlike the example above of the CEO of the Brazilian Division of the Fortune 100 Company. More important, when our customers have measured profit impact 12 months after the program, they have consistently experienced 10-12 times return on program investment.

This data clearly confirms:

1. Although executives have years of business experience, they benefit vastly from development of their business acumen.
2. Since executives continuously make profit-impacting decisions, developing their business acumen capabilities pays off handsomely.

And Here is Why...

First, most executives master the KPIs that are key to running their part of the company. However, we find that most executives do not understand well enough how their decisions impact the key profit and value measurements used across the enterprise. There is a tendency by executives to “let the finance people handle the numbers, while I make the

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business decisions.” Keep in mind, business acumen is not about teaching executives finance; it is about having a backbone understanding of how decisions will impact profit and growth.

Second, we must consider market focus. How many people in a company really have a market-based view of the business, and how many truly think from the customer’s point of view? How many have an understanding of the competitive landscape? We have seen that the longer executives spend in a business, the more removed they become from the customers, their real needs and priorities. Executives have so many responsibilities pertaining to running the operations of the business. And, to put it simply, can we ever get enough development of our market-based view of the business, whatever level we operate on?

Third, we find that the vast majority of business executives have almost all their experience within one business function, where they have deep expertise. Most execs are either “sales and marketing people,” “operations guys,” “finance folks,” etc. It is mission critical that they have the ability to understand the big picture of the business and its interrelationships.

“The Most Valuable Program Ever”

In this article, we have shown that executives need and benefit from programs that teach them business acumen. Business acumen is developed most effectively “by doing” and custom business simulations have proven to be highly effective and generate substantial returns.

Now, what happened with meeting with the CEO of the Brazilian Division of the Fortune 100 Company? I was able to convince him of the value of developing business acumen among his leaders. After going through the fully custom simulation-based program with his senior leadership team, he described it as, “The most valuable program I have ever participated in.” He then took the program to all his leaders in Brazil, and was one of the champions who rolled it out to the top 4,000 leaders globally.

Shortly after this initiative was deployed, this Fortune 100 Company returned to earnings growth after a period of stagnation. Their Global CEO stated that the business acumen program was a driving factor.

- 1 The Institute for Corporate Productivity, 2010 Study
- 2 McKinsey & Company, “Governance since the Economic Crisis”, April 2011

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