



Strategy made personal

BTS RESEARCH REPORT



Skills Mismatch:

Business Acumen and Strategy Execution

Executive Summary:

Does Business Acumen Enable Strategy Execution?

Survey Conducted by the Economist Intelligence Unit

"If your organization doesn't fully understand how your company thrives economically and how it delivers distinct value to the marketplace, you won't be as successful as you can and should be."

– Jeff McCreary, former
Chief Sales and Marketing
Officer Texas Instruments

A well-formulated business strategy, powerful product or breakthrough innovation can put an organization on the competitive map, but only strong strategy supported by sustained execution can assure long-term success.

Regularly cited as a top CEO priority, execution is considered the key to achieving superior business results. Yet, the majority of organizations fail to effectively implement strategic initiatives. Research reveals that companies achieve a fraction of the financial results envisioned during the strategy's development. How much of this can be attributed to an organization's lack of business acumen or business skills?

A survey of more than 300 senior leaders and managers from around the globe conducted by the Economist Intelligence Unit and sponsored by BTS explores the relationship between business acumen and strategy execution. The data reveals that leaders across various industries around the globe overwhelmingly agree that insufficient business skills often limit an organization's ability to achieve strategic priorities.

This research report explores the business acumen skills critical at various levels of an organization, evaluates the common gaps between these skills and an organization's current capabilities, and identifies trends in business acumen development.

What is Business Acumen?

Synonymous with business skills, business acumen is defined as an intuitive and applicable understanding of how a company makes money and includes:

- **Strategic Perspective:**

An overall big picture understanding of the business; the critical interdependencies across functions and divisions; the short- and long-term trade-offs of decisions

- **Financial Acumen:**

A comprehensive understanding of the drivers of growth, profitability, and cash flow; a firm's financial statements; key performance measures; implications of decisions on value creation

- **Market Orientation:**

The ability to analyze and synthesize market and competitive data; a deep understanding of the customer's business objectives and purchasing criteria; an appreciation of the value of each customer to the company

1.

Challenged to Execute Strategy, Skills Shortage Is a Pressing Concern

Coined in 1997, the “war for talent” has echoed throughout the business world and remains a critical challenge. While economic uncertainty was recognized by surveyed senior leaders as the greatest challenge confronting organizations today, **47 percent of senior leaders considered external skill shortages to be a major obstacle inhibiting their company’s ability to meet strategic goals.**

Surprisingly, external skill shortages were considered to have a greater impact on execution than global competition, regulatory constraints, political uncertainty and technological changes.

Across the globe, talent shortages and mismatches are not likely to be resolved anytime soon. This is particularly true in many of the developed economies. “Let’s face it. There are 80 million Baby Boomers who are going to retire over the next five to seven years, and they’re going to be replaced by 40 million Gen Xers,” exclaimed Michael White, Chairman, President & CEO of The DIRECTV Group. “That’s two to one, so you’d better be developing your next generation now if you’re going to be ready for that transition.”¹

Constrained by the talent crunch, organizations are increasingly working to ensure their workforce is as efficient and effective as possible. With a need to do more with less, there is growing recognition that developing capability internally is essential to effective strategy execution.

¹ “The Talent Challenge”, *15th Annual Global CEO Survey: Delivering Results, Growth and Value in a Volatile World*, PwC, 2012, 23.

External Challenges: Rank Order

1. Economic Uncertainty
 2. Skills Shortage
 3. Global Competition
 4. Regulatory Constraints
 5. Political Uncertainty
 6. Changes in Technology
 7. Limited Access to Capital
 8. Shifting Workforce Demographics
 9. Increased Social Connectivity
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2.

Business Acumen: A Key Role in Strategy Execution

To what extent does a lack of business acumen limit an organization's ability to effectively execute strategic initiatives? **Over 65 percent of surveyed leaders agreed that insufficient business acumen limits their organization's ability to realize strategic goals to a strong extent.**

Furthermore, at both the manager and senior manager levels, the business skills identified as most important by respondents were also the capabilities most in need of development.

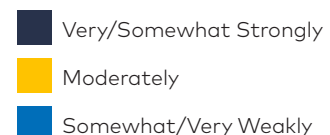
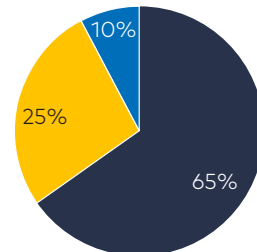
The implications of this capability gap are profound. "Can you imagine a football team that didn't work on strength and conditioning?" stressed Jeff McCreary, the former Chief Sales and Marketing Officer at Texas Instruments. "Solid business skills provide the same kind of foundational strength for virtually any enterprise. To build a high performing culture and a team committed to rapid execution, you have to develop business acumen."

Business acumen strengthens alignment around an organization's strategy, contributes to successful implementation and ultimately improves financial performance. While most corporations recognize business skills as necessary, companies typically struggle to define and develop it across the organization. To maximize impact, organizations must take a strategic approach, targeting the competencies critical at each level of the corporation.

"Navigating from strategy to execution presents tremendous business, leadership and organizational challenges. Building an organization's fundamental business and leadership skills are a critical first step to success."

– Susan Burnett, former Senior Vice President of Talent & Organizational Development, Yahoo!

To What Extent Does a Lack of Business Acumen Limit Strategy Execution?



3.

The Business Acumen Gap: High- vs. Low-Performing Organizations

Not all organizations are equally affected by a business skills gap. Challenged to execute strategic initiatives, high-performing organizations, defined by above average revenue growth, are less constrained by a skills gap. Respondents from low-performing organizations more frequently indicated that insufficient business skills inhibit the execution of strategic priorities.

Sixty-three percent of respondents identified as a market leader in revenue growth cited that a lack of business acumen has a very or somewhat strong impact on execution. Seventy-four percent of respondents identified as below average in revenue growth agreed. These findings suggest that a company's overall performance may be impacted by its business acumen capability.

High-performing organizations recognize the importance of business skills to execution and have taken the proactive actions necessary to build the required competencies. Meanwhile, pressured to improve results, low performing organizations admit to being constrained by insufficient business acumen.

63% vs. 74%

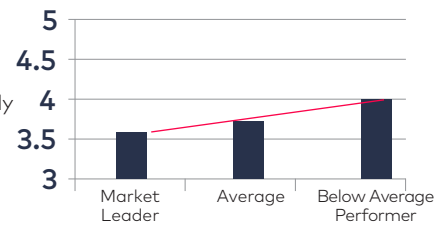
high performing organizations are less constrained by a skills gap.

To What Extent Does a Lack of Business Acumen Limit Strategy Execution?

5 = Very Strongly

4 = Somewhat Strongly

3 = Moderately



Revenue Growth

4.

Business Skills Critical to Execution: Managers vs. Senior Leaders

Business skill requirements are stratified at different levels of an organization's hierarchy. The capabilities required from a front-line manager vary considerably from a senior leader.

For Senior Managers (Heads of Business Units, SVP, VP, Executive or C-Suite), 86 percent of surveyed leaders overwhelmingly identified the ability "to set and maintain a clear vision and direction for the organization" as the most important business skill. "Demonstrating an understanding of the marketplace and competition" was deemed more critical for senior managers by 65 percent of respondents.

For Managers (Directors, Heads of Department, Managers), 75 percent of senior leaders considered the ability "take action to reach targets and meet commitments" as the most important capability. "Setting high standards for customer relations" was selected as essential for managers by 64 percent of respondents.

The following factors were all deemed equally high in importance for both senior managers and managers: financial acumen, decision-making and cross-functional collaboration.

These findings are strongly correlated with the unique responsibilities associated with these two corporate layers. Not surprisingly, survey respondents confirmed that the critical

capabilities of a senior leader relate closely to defining strategy and setting the company direction. More noteworthy, the ability to understand customer needs, competitor offerings and other related external factors were identified as more essential than other business skills. For managers, the main priority revolved around meeting goals through strong tactical execution; however, as the eyes and ears of the organization, managers are also challenged to ensure that customer needs are met and well-served.

To build these critical business skills, companies leverage various strategies; yet, not all approaches are equally effective, motivating significant shifts over the next five years.

Critical Business Skills

Senior Manager

1. Sets and maintains a clear vision and direction for the organization
2. Demonstrates an understanding of the marketplace and competition
3. Demonstrates timely, disciplined decision making

Manager

1. Takes action to reach targets and meet commitments
 2. Sets high standards for customer relations
 3. Demonstrates timely, disciplined decision making
-

5.

Bridging the Gap: Business Acumen Development Strategies Expected to Shift

To obtain the business skills required for strategy execution, companies are focused on two approaches 1.) Acquiring talent through recruitment activities and 2.) Implementing internal development initiatives to build the organization's current talent. However, these strategies are not equally impactful.

Recruitment initiatives, intended to attract employees with strong business skills, were considered comparatively less effective. Based on a composite score, **51 percent of surveyed respondents indicated recruitment as the method most used to secure business skills within their organization today. However, this approach is projected to decline by nearly 12 percent over the next five years.**

Meanwhile, developing business acumen internally was deemed more impactful by survey respondents. **Today, internal development strategies are most prevalent at 49 percent of organizations. Over the next five years, internal development initiatives are expected to grow by nearly 11 percent.**

Despite the projected growth in internal development strategies, the survey found that not all approaches to development are equally favored.

Over the next five years, internal business skill development initiatives are expected to grow by nearly

11%.

Business Acumen Development Trends



6.

Building Skills on the Job, the Once-Favored Approach, Projected to Decline

Recognizing the talent constraints in the external market and expected trend away from recruitment activities, companies are increasingly focused on growing talent internally. However, senior leaders increasingly doubt the effectiveness of the most prevalent approach to developing business acumen, on-the-job experience.

Including coaching, mentoring, and trial and error experiences, on-the-job experience is by far the most common method to ensure managers and senior managers have the business skills required for execution.

A staggering 85 percent of respondents indicated that this approach is most frequently used within their company.

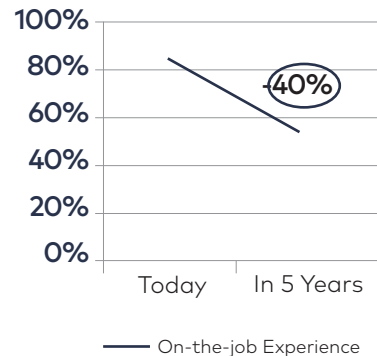
However, over the next five years, on-the-job experience is expected to decline by nearly 40 percent. Eighty-five percent of respondents indicated that this approach is primarily used within their organization today, but only 53 percent expect the approach to be used in five years' time.

This decline confirms a growing trend. Today's senior leaders recognize that on-the-job experience is not the most desirable way of developing business skills. Bringing added risks that could negatively impact a company's results, this approach does not allow for consistency across the enterprise. Without a structured process, strategic business acumen development is difficult to achieve.

Over the next five years, on-the-job experience is expected to decline by nearly

40%.

On The Job Experience to Decline



7.

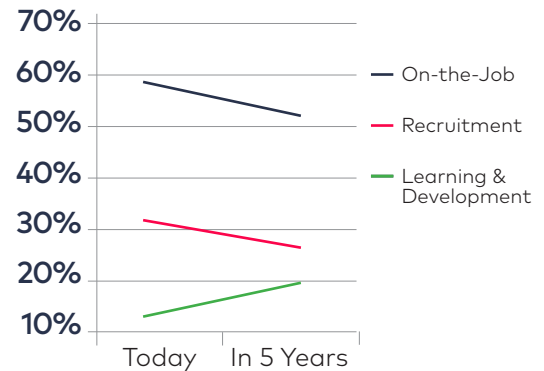
A Growing Trend: Formal Learning Approaches Expected to Increase

Challenged to address the skills gap, today's organizations are increasingly moving towards high impact formal learning approaches to develop the capabilities critical to execution.

Going forward, senior leaders expect learning and development to play an increasing role in building business acumen. **Based on a composite score, learning and development approaches are expected to grow 47 percent over the next five years.**

In comparison, surveyed senior leaders predicted that recruitment activities and on-the-job experience will decline as a means to secure these skills going forward.

Business Acumen Development Strategies Shift



Learning and development approaches are expected to grow **47%** over the next five years.

8.

On the Rise, Business Simulations Prove Particularly Effective

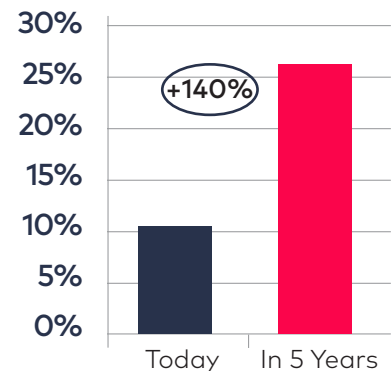
Proven to be particularly effective, customized business simulations are projected to grow at a far faster rate than all other formal learning methods. **Eleven percent of senior leaders indicate that business simulations are used within their organization today, and 26 percent anticipate that this approach will be used in 5 years' time— a 140 percent increase.**

The striking growth rate of business simulations is a testament to the effectiveness of this approach. "At the end of the day, the question becomes 'Did it improve your execution? Did it change your results in any way?'" reflected Jeff McCreary, former Chief Sales and Marketing Officer at Texas Instruments. "Combined with other initiatives, the business simulation enabled us to improve market share, and not just for one or two years or three years, but for a five or six year period of time."

In comparison, expert-led lectures are expected to decline by 32 percent over the next five years. The most common learning and development method used to develop business skills today, expert-led lectures, are not considered highly effective.

"I was originally against doing a business simulation," admitted Ted Kelly, CEO of Liberty Mutual. "I am a big fan of case study presentations. I was wrong. It's the best training initiative we've ever done."

Business Simulations: Today and 5 Years from Now



"In the stores that went back and applied what they had learned, we saw an uplift in conversions from 1 to 14 percent. To put that in context, 1 percent conversion in a Nike factory store across our fleet is the equivalent to \$60 million."

– Joe Campbell, Director Talent Development, Nike Retail

Conclusion:

Accelerating Strategy Execution

In today's increasingly complex business environment, leading organizations recognize superior strategy execution as a critical opportunity. However, the results of this study confirm that many companies are currently constrained by a business acumen gap.

With a skills shortage in the external marketplace, organizations are challenged to effectively bridge the gap by building these skills internally. Recognizing the risks of on-the-job skill development, companies are increasingly leveraging innovative, direct, formal learning approaches to accelerate results. The research revealed that expert-led lectures, the traditionally favored method, are predicted to become less common. Going forward, business simulations are expected to become increasingly widespread, outpacing other formal learning methods.

However, to maximize impact, companies are best advised to move beyond a short-term approach to business acumen development and directly address skill gaps at all levels of the corporate hierarchy. A long-term, strategic and proactive approach will prove critical to success.

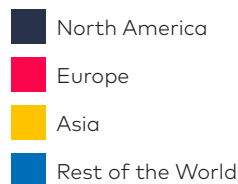
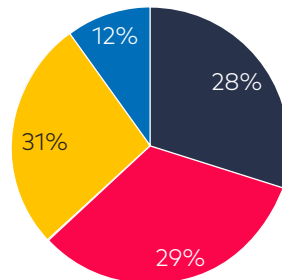


Appendix

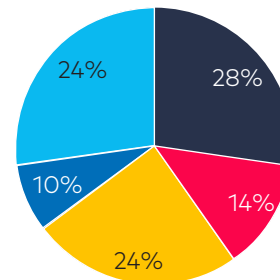
Sponsored by BTS, the Economist Intelligence Unit conducted a global survey of over 330 senior leaders (CEOs, SVP/VPs, Directors, and Managers) to explore the relationship between strategy execution and business acumen, define the business skills required, and evaluate various business acumen development methods. Written by BTS, this research report is based on the survey responses.

Respondents to the survey represented a diverse range of geographies and company sizes across 16 industries and 13 business functions. Forty-seven percent of respondents were within the C-suite.

By Geography



By Revenue



About BTS

BTS: The Global Leader in Strategy Alignment and Execution

BTS is a global professional services firm headquartered in Stockholm, Sweden, with some 450 professionals in 32 offices located on six continents. We focus 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.

We serve a wide range of strategy execution and talent development needs. Our services span the employee lifecycle from assessment centers for selection and development to strategy alignment and execution initiatives, and from business acumen, leadership and sales training programs to on-the-job business simulations and application tools. We partner with nearly 450 organizations, including over 30 of the world's 100 largest global corporations. Our major clients are some of the most respected names in business: AT&T, Chevron, Coca-Cola, Ericsson, Google, GSK, HP, HSBC, Salesforce.com, Telstra, and Unilever.

BTS is a public company listed on the Nasdaq OMX Stockholm exchange and trades under the symbol [BTS B](#).

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