

Business acumen: a critical concern of modern leadership development

Global trends accelerate the move away from traditional approaches

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Corporations assess executives for just about every competency except business acumen – arguably the one most valued by shareholders and profit-making companies.

But a sea change is taking place. Several new factors – involving the discipline of leadership development and external economic factors – are driving the realization that leadership development needs to focus specifically on business acumen.

Shortcomings of traditional approaches

Shortcomings in traditional leadership approaches, which rely on personality and competency assessments as the scientific core of their approach, are becoming increasingly obvious. These include:

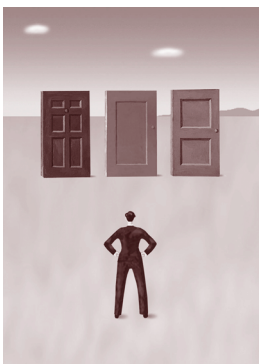
- mounting evidence that traditional assessments have no direct link with financial outcome;
- shortcomings in financial-literacy and business-simulation approaches; and
- the emergence of the disciplines of behavioral economics and finance.

Traditional assessments have no direct link with financial outcome

The business side of companies has long made the observation that traditional assessments have no direct link with financial outcome. This view now has academic respectability from a number of sources, including past editors of the respected journal *Personnel Psychology*. Their work shows that personality tests have little or no impact on job performance and outcome (Morgeson *et al.*, 2007). Research by Peter Cappelli, at Wharton, has also cast strong doubt on the use of traditional personality and competency assessments (Cappelli, 2007).

Shortcomings in financial-literacy and business-simulation approaches

In response to the idea that traditional leadership approaches have serious flaws in the business and financial arenas, many corporations have turned to developmental approaches designed to help executives to gain training that is more relevant to their business needs. The two principal approaches used have been to target financial literacy, and to conduct business simulations.



“ Powerful global economic trends are [. . .] converging in such a way as to increase the importance of business acumen in leadership-development approaches. ”

Financial-literacy training usually comprises either in-house courses conducted by academics or financial experts, or academic courses such as those conducted at universities. However these suffer from several major shortcomings:

- Most senior executives already have such knowledge, so it is of little or no relevance to them.
- Even junior managers who have business qualifications already have this knowledge.
- Most importantly, there is no evidence that higher financial literacy has any impact on increasing business acumen and changing behavior. Indeed, there is some evidence to the contrary (Zagorsky, 2007). It is becoming clear that making money is more of a behavioral than a literacy issue.

Business simulations are usually conducted at less-senior levels of management. They clearly have some value. However they take place in idealized settings where participants know they are being observed and where their behavior is unlikely to be similar to what would occur in practice.

Furthermore, business simulations cannot rigorously reveal how the particular behavior of individual participants has affected the outcome because these simulations have no method scientifically to identify or measure different financial behaviors. At best, then, such exercises show participants only what could happen generally, rather than what would actually happen in their own case, given their own individual behavior.

Emergence of the disciplines of behavioral economics and finance

Traditional leadership-development approaches have been based on the disciplines of psychology, sociology and anthropology. They have failed to incorporate findings from economic and financial disciplines. However, emerging disciplines of behavioral finance and behavioral economics are of far more relevance to leadership development. Unfortunately most leadership-development specialists are unfamiliar, or uncomfortable, with finance and economics.

But the emergence of popular works in these fields, such as those by Nasim Taleb (2007) and others, is popularizing these fields. In effect the popular imagination is bypassing leadership development in this area and casting doubt on traditional approaches. We can expect this trend to continue and for the findings of these disciplines increasingly to affect leadership-development approaches through the impact of popular pressure rather than initiatives by leadership-development specialists.

Global economic developments

Powerful global economic trends are also affecting leadership development. These are converging in such a way as to increase the importance of business acumen in leadership-development approaches. The trends include:

- the global economic slowdown;
- global shortages of key commodities;
- emerging countries that have little or no familiarity with traditional leadership approaches; and
- environmental cost-benefit issues.

The global economic slowdown

The global economic slowdown has major implications for leadership development. For a start, it is likely that budgets in this area will be cut as companies act on the perception that leadership-development expenditures do not necessarily lead to higher economic benefit, especially in the short-term. Issues such as the credit crisis also focus attention on the fact that business acumen is a desirable competency in itself if future crises are to be averted, or at least minimized (Perth Leadership Institute, 2007). We can confidently expect that there will be more pressure from the business side of corporations to increase the focus on business acumen for these reasons. In fact this is already occurring.

Global shortages of key commodities

The emerging shortage of key commodities is also having a major impact. The shortage is putting pressure on leaders to find new ways to counter these problems. Business acumen again is a competency in short supply that is much needed both to find substitutes and to minimize the effects of these shortages. We can expect that business leaders will push leadership-development specialists to be part of the solution here.

Emerging countries that have little or no familiarity with traditional leadership approaches

In just the same way that emerging economies such as China and India have skipped the phase of using landlines, instead going direct to mobile telephony, so too are they likely to avoid traditional leadership approaches. There is little familiarity with traditional approaches and, to some degree, little tolerance of them.

In countries such as India, China and Brazil the focus is on how to use leadership development to increase competitive positions at both company and country levels. We can expect that the emerging economies will increasingly influence, and even maybe eventually dominate, the global leadership-development agenda. In this they will tend to focus on business acumen at least as much as, if not more than, traditional psychological approaches.

Environmental cost-benefit issues

The environmental arena might seem to be an unlikely source of impact on leadership development, yet it is clear that this is becoming more important as an issue to all companies. No more is it an acceptable approach just to throw money at solving environmental problems. In a world of economic slowdown and commodity shortages, environmental concerns will increasingly drive demand for leaders who have business acumen that can help to solve some of the thorniest issues that are at the confluence of profitability and environmental trends. Leadership development will increasingly be called upon to contribute also to finding solutions for these issues.

The future of business acumen

We can expect research in the area of business acumen to increase and to have an increasing impact on leadership-development and HR agendas, not only in the private sector, but also in the government and non-profit sectors, where such approaches are sorely needed. Leadership-development, organizational-development and HR specialists will need rapidly to absorb these new findings and to incorporate them into their leadership development and their executive-selection and recruitment programs in order to stay relevant to these rapidly emerging needs.

Keywords:

Leadership development,
Management development,
Business excellence,
Skills training

“In a world of economic slowdown and commodity shortages, environmental concerns will increasingly drive demand for leaders who have business acumen.”

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