



Perth Leadership Institute White Paper Series

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Coaching Leaders In A Recession - Improving Financial Impact And Business Acumen

Coaching forms a vital component of leadership and talent development. This White Paper addresses how the coaching discipline can be leveraged to incorporate the emerging behavioral finance approach, and directly align coaching objectives with the organization's financial and valuation goals.

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Executive Summary

Part One: Why Companies Need Business Acumen Coaching

Coaching needs depend on the phase of the economic cycle. In bad times, a bottom line approach is required. The focus must shift decisively from interpersonal skills to improving business acumen and financial performance.



Business acumen coaching gains credibility for HR from the business side. The behavioral finance approach is changing the traditional coaching paradigm. It provides a formal behavioral model for business coaching.

Part Two: Business Acumen Coaching is Different...

...It focuses squarely on financial and valuation outcomes, and on measurement of outcomes. It also assists with organizational transformation because it identifies innovation behaviors.



There is little organizational familiarity with the business acumen approach since it is so new – therefore development of supportive infrastructure is critical. Coaches with strong business backgrounds are required in order to be credible. Coaching outcomes must be measured quantitatively.

Part Three: What You Should Expect From Business Acumen Coaching

Different levels have different expectations. The leadership agility of the coaching subject will have a high impact on effectiveness. Organizational factors are critical in addressing reversion to type. Expect immediate financial change from the majority of participants.



Business acumen coaching can be transformational. It is a badly-needed complement to regular coaching programs and should be looked at by companies as another means of improving financial performance.

**COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT
AND BUSINESS ACUMEN**

Table of Contents

EXECUTIVE SUMMARY 2
TABLE OF CONTENTS..... 3

**COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL
IMPACT AND BUSINESS ACUMEN 4**

PART ONE: WHY COMPANIES NEED BUSINESS ACUMEN COACHING..... 4
COACHING IN BAD TIMES NEEDS TO BE DIFFERENT 4
COACHING NEEDS DEPEND ON THE PHASE OF THE ECONOMIC CYCLE 5
TRADITIONAL COACHING HAS FOCUSED ON INTERPERSONAL, RATHER THAN PURELY
BUSINESS SKILLS..... 6
BEHAVIORAL FINANCE APPROACHES ARE CHANGING THE TRADITIONAL COACHING
PARADIGM..... 7
IT PROVIDES A FORMAL BEHAVIORAL MODEL FOR BUSINESS COACHING 8
THE NEW APPROACH STILL HAS STRONG SIMILARITIES WITH ITS TRADITIONAL COUSIN
BUT THERE ARE SOME KEY DIFFERENCES.... 10
PART TWO: BUSINESS ACUMEN COACHING IS DIFFERENT 11
COACHING SUBJECTS ARE OFTEN MORE SENIOR 11
IT FOCUSES ON FINANCIAL AND VALUATION OUTCOMES 12
COACHES MUST HAVE HIGH BUSINESS CREDIBILITY 13
THERE IS LITTLE ORGANIZATIONAL FAMILIARITY WITH THESE APPROACHES 14
PART THREE: WHAT YOU SHOULD EXPECT FROM BUSINESS ACUMEN COACHING 15
DIFFERENT LEVELS, DIFFERENT EXPECTATIONS 15
VARIATIONS IN LEADERSHIP AGILITY LEAD TO VARYING DEGREES OF EFFECTIVENESS... 16
LIKE ALL COACHING, IT MUST ADDRESS REVERSION..... 16
ORGANIZATIONAL FACTORS ARE CRITICAL..... 17
EXPECT MAJOR CHANGES IN SOME, NOT ALL, PARTICIPANTS..... 18
COACHING OUTCOMES MUST BE MEASURED QUANTITATIVELY 18
BUSINESS ACUMEN COACHING CAN BE TRANSFORMATIONAL 20
BADLY-NEEDED COMPLEMENT TO REGULAR COACHING PROGRAMS 22
CASE STUDIES MAKE THE POINT 22

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

Part One: Why Companies Need Business Acumen Coaching

Coaching in Bad Times Needs to Be Different

Coaching for managers and executives has become increasingly utilized as a mean of increasing professional performance and of resolving other issues of both a professional and a personal nature. Yet coaching has generally been utilized and applied in the good times when money was readily available and where the coaching was often seen as a job benefit, that may not may not be directly limited to the actual financial performance of the executive or manager.

“The priorities of companies have changed dramatically from providing benefits to employees to reducing costs and ensuring that all activities have a direct impact on the bottom line.”

Now times have changed. Money is hard to get. The priorities of companies have changed dramatically from providing benefits to employees to reducing costs and ensuring that all activities have a direct impact on the bottom line. How does this affect coaching programs? Are they still relevant in a recession? Has coaching become a luxury that can be adopted only in the good times? This White Paper sets out how companies need to view coaching programs in a recession and how they relate to the radically changed

objectives that most will have now adopted and that will be their prime concern at least until the boom times return, if ever.

In recessionary times company priorities necessarily become more hard-edged. Companies turn their attention away from the mental comfort and social performance of executives to direct bottom lines concerns, to profitability and financial survival. In these times companies and the executives themselves are under intense financial pressure. Often the executives in these companies may not be particularly good at working in such an environment either because they do not have this experience or if they themselves do not have high or much business acumen. Often they have no way of linking their own behavior with financial outcomes and, as such, their effectiveness in the company environment is fatally reduced.

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

Coaching Needs Depend on the Phase of the Economic Cycle

We have developed the concept of the *leadership cycle*. The leadership cycle is based on the interplay between the two essential criteria in leadership, namely, interpersonal skills and business acumen.

The interpersonal skills approach focuses on the capability of a leader to inspire, motivate and direct other stakeholders in their company or unit. This is a behavioral approach which uses personality and competency theories as its methodological underpinning; this has been the main focus of leadership theory and development for many years.

The other approach, which is much newer, is the business acumen approach. The business acumen approach focuses on the potential of the leader to create capital, as distinct from consuming it. This is also a behavioral approach but is based on the paradigm of behavioral finance and behavioral economics to provide the methodological underpinning.

In the boom phase of an economic cycle, there is much less emphasis on business acumen in leaders because even people without it seem to be doing well. Companies are doing well and tend to select leaders who have the right interpersonal skills since balance sheets appear strong and profitability is high. Leaders who appear to have business acumen frequently do not actually possess it but have profited by being in a company with strong financials and appear to have been a factor in building this position.

Booms encourage demand for leaders who have relatively low business acumen and high interpersonal skills to generate support for projects that appear to have great or even spectacular payoff prospects but are really black holes in disguise. Leaders are often not aware of because of their lack of business acumen. Leadership development focuses on improving interpersonal skills and competencies. Business acumen tends to get much less attention because it seems there is little need for it. Usually companies bask in misplaced confidence that their culture, systems and processes are such as to sustain their seemingly good financial results.

Once a correction occurs, this all changes. Suddenly the emphasis on business acumen increases significantly in comparison with interpersonal skills. Companies tend to favor someone to right their financial woes even if they lack traditional interpersonal skills, or they are not as strong in that area. The mindset changes to survival, capital creation and maintenance. This again encourages the emergence of and emphasis on leaders and managers with high business acumen.

So in the correction phase of an economic cycle, the proportion of managers and executives with high business acumen increases and the proportion of those with high interpersonal skills decreases, usually very significantly. This usually only occurs after the trough of the correction, once the reality of the financial situation sets in and when boards and hiring organizations have had time to translate this into hiring decisions. This change in leadership proportions continues for some time until the market starts to turn up again and for some time after while memories of the correction are still sharp.

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

Once the market starts to become healthy again, the same dynamics kick in, namely that profitability increases and hiring decisions shift to leaders with less or even no business acumen but with higher levels of interpersonal skills. As the market starts to heat up, this shift accelerates. As the height of the boom is approached, most of the focus shifts to leaders with high levels of interpersonal skills who, in some cases, have the skills to sell deals which would look suspect to leaders with high business acumen. Leaders with high business acumen but relatively low levels of interpersonal skills tend to become de-emphasized.

What is the message for coaching approaches in companies? There are several:

1. Coaching for interpersonal skills is not the only game in town
2. Business acumen is, or should be, critical to an executive's success
3. The emphasis in a coaching program may need to change depending on the phase of the economic cycle
4. HR organizations need to build up their own skills and techniques to increase business acumen
5. They need to focus specifically on this issue during economic downturns

Traditional Coaching has Focused on Interpersonal, rather than Purely Business Skills

Traditional coaching has been based on personality and to a lesser extent competency theory. Traditionally coaches have had degrees in psychology, therapy, sociology, anthropology and social work and to a less extent in HR or organizational development. Sometimes they have also been in the "alternative" psychology disciplines such as NLP (neurolinguistic programming). However the common thread has been a focus on improving interpersonal skills, reading others better, enabling them to work better with others and teams, and enabling them to lead better though better motivational skills.

These skills are valuable and necessary. For many executives they may be sorely needed and without them there is a barrier to advancement and effectiveness. For others, they are not so important since the executive may already have many of these skills.

Conventionally the focus of coaching has been corrective. That is, it has been regarded as having a therapeutic aim, to correct an existing problem in the area of interpersonal skills. As coaching has become more mainstream, this emphasis has changed, to some degree, to becoming non-therapeutic, that is to improve and hone interpersonal skills. However the therapeutic emphasis undoubtedly remains a priority for many organizations and individuals driven by a strong psycho-analytic focus by many coaches and HR organizations.

Almost all of coaching theory is based on traditional personality theory and, to a lesser extent, competency theory. Coaches often utilize assessments such as the Hogan Personality Inventory, Myers-Briggs, the DISC profile, and Five Factor Model; and on the competency side, the McQuaig and others. Increasingly over the last few years they have also been guided by the tenets of emotional intelligence, itself an outgrowth of traditional personality theory. Recently there have emerged popular instruments such as the Strengths Finder from Buckingham which are far less

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

rigorous, but still rely for their terminology and approach on the traditional approaches.

Behavioral Finance Approaches are Changing the Traditional Coaching Paradigm

Coaching approaches are now being impacted from a totally unexpected source, namely behavioral economics and behavioral finance. These disciplines focus on the link between individual behavior, financial decisions and financial outcomes at the microeconomic and macroeconomic levels.

The field of behavioral finance has emerged in the last 20 years as a new model to describe financial and economic phenomena. Behavioral finance and economics are different to their classical cousins in that they drop the classical assumption that financial and economic decisions are always rational. They now inject a new idea into these disciplines, that consumers and economic managers sometimes make financial and economic decisions irrationally, or to adopt the de rigueur terminology, under conditions of mixed rationality. However until recently academic models had still not made the leap to showing how these behavioral finance models can be applied to specific managers and companies to predict their future valuation and profitability prospects.

“Behavioral finance and economics are different to their classical cousins in that they drop the classical assumption that financial and economic decisions are always rational.”

Yet even this has changed. In the past few years, new models have emerged built on a behavioral finance paradigm, which allow these techniques to be applied at the level of the individual, management team and the company. These models dramatically extend the power of behavioral finance so that it can be harnessed to equity and bond valuations. The Perth approach is based on a behavioral finance framework.

With a behavioral finance paradigm we can now show the linkages between individual decision-making, financial behaviors and financial outcomes at the individual, team and company levels. Individual financial behavior can be defined in terms of business acumen and the resulting creation of market value. The resulting model allows us to assess individuals on their level of business acumen and to show them how to change their behaviors so as to increase it. In effect behavioral finance has uncovered a totally new side of behavior, that is economic and financial behavior, and has modeled it for useful purposes.

The research into behavioral economics and behavioral finance is being paralleled by work into neuroeconomics and neuroscience. These are focused on locating the physical centers of the brain responsible for financial decision-making. Other research into neuroscience is focused on the highly related centers of pleasure and pain, and their link to brain chemicals such as Oxytocin which are associated with love and pleasure responses.

These fields are coming together in a way that could not have been imagined even five years ago. Their collective significance is to provide a new lens for assessing and

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

training leaders. That lens has practical implications for their ability to create or to consume capital. It also has practical implications for economic downturns such as the present where business and financial concerns are front and center, as distinct from interpersonal skills whose importance diminishes relatively in such an unforgiving economic environment.

Behavioral finance has a number of impacts on the traditional coaching paradigm:

1. Individuals can be assessed in terms of their impact on the profit and loss results of a unit or company
2. This can also be done for teams and for organizational units
3. This in turn can reveal the financial direction and the likely market value of a company
4. This can be compared to other companies in an industry
5. Thus financial behaviors can give us financial insights at the level of the company, market, industry and at the competitive level
6. Individual and team financial behaviors will have a predictable impact on the financial results and financial statements of a unit or a company
7. Thus income statements, balance sheets and cash flow statements will reflect the financial behaviors of the dominant individuals and teams and cultures within a company

That is, coaching, which used to be primarily individually-focused, can now focus also at the team and company levels because collective financial behaviors can be viewed as a company's financial culture. This in turn has predictable consequences for profitability and market value.

There is another series of consequences of a behavioral finance approach at the level of the company and the collective:

1. Behavioral finance opens up a new approach to organization development
2. Organizations can now be viewed as the sum of the individual financial behaviors which aggregates up into a distinct financial culture which has predictable impacts on profitability and market value
3. Individual financial behaviors have network effects. They can be contagious under certain circumstance, paralleling recent research into social contagions
4. Coaching aims to impact both individual behaviors, team behaviors and network effects at the financial levels
5. Thus organizational transformation now has a direct financial aspect rather than, as traditionally, only sociological and psychological impacts

It Provides a Formal Behavioral Model for Business Coaching

What is the process of coaching in business acumen using behavioral finance approaches? It is as follows:

1. The subject completes formal assessment instruments to identify their financial traits and their behavioral propensity to create capital; this model is based on the approach set out in the book "The Three Financial Styles of Very Successful Leaders: by E. Ted Prince (McGraw-Hill, 2005).

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

2. Ideally the coaching is part of a team financial program in which the members of a team undergo the same assessment process.
3. In this case, before any individual coaching takes place, a team workshop is completed of around 1-2 days that briefs the team on the model and shows its results at the team level, and provides instruction and training on how to use these results at the team level to improve team financial behaviors and thus team financial performance.
4. After the team workshop, the individual coaching program takes place based on the individual results.
5. This usually entails two sessions in which the individual's results are explained in the context of their job and career performance and goals.
6. The end-result is 2-3 recommendations which are immediately actionable and will have a measurable impact on their financial performance.
7. Ideally this is followed by the preparation of a customized development plan for the individual.
8. Finally the individual is reassessed six months or so later to see how they have progressed against this recommendation and against their financial behaviors.

The assessments identify and measure three factors:

- The Financial Signature® of the individual and the team – that is, the innate propensity to create capital.
- The Financial Mission of the individual and the team – that is their actual propensity to create capital – this may often be different from their innate propensity due to organizational or other reasons.
- The Financial Mission of the organization as a framework to assess the level of alignment between the individual, team and organizational Financial Mission and to show how the Financial Missions can be aligned.

The Perth model uses a reputational approach as the basis for its assessments, rather than a self-rating approach. It has found in its research that self-ratings approaches produce inaccurate results but that a reputational approach is very accurate. In effect this is a 360 technique that is reported by the subject and has proved to have high statistical validity.

The Perth model also teaches what it terms the “signals” approach, that is the importance of focusing on the subconscious signals that a person sends out which actually broadcast the Financial Signature of the person without them being aware of it. These signals elicit predictable responses which reinforce the Financial Signature of the individual and shut off other potential avenues of response for them, thus closing off other behavioral options. This model is not unlike that taught in neurolinguistic programming, which some coaches use as the basis for an interpersonal skills approach to coaching.

The Perth approach teaches the importance of integrating personal and family issues where it is appropriate. This is because the financial behaviors that all people exhibit naturally impact their personal and private lives, also without them being aware of it. In effect the Perth model is also assessing the impact of their financial behaviors not just on their professional life, but also their private life. So this type of data can be very revealing of their potential financial behaviors and results within their professional life and at the enterprise and corporate level.

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

The New Approach Still Has Strong Similarities with its Traditional Cousin

For all the fact of the new paradigm, there are still plenty of similarities between traditional coaching and coaching based on a behavioral finance paradigm. Some of these are:

- Assessments: As with traditional coaching there is still need for a psychosocial assessment instrument, in this case an assessment of the individual's propensity to create or to consume capital, or, in more popular terms, their level of business acumen. Without this there is no objective baseline and no basis for improvement.
- Coaching will still employ the traditional coaching language of strengths and vulnerabilities. However in this case these terms will apply to behavioral finance strengths and vulnerabilities and their impact on individual, team and corporate financial outcomes.
- As with any coaching program, behavioral change is difficult and for many people almost impossible. For a privileged and lucky few, they will be able to make more change. However all subjects will tend to revert to type. The level of success will depend on the level of mental and leadership agility of the subject, and for most people this is demonstrably not high, no matter what the coaching paradigm.
- As with all coaching paradigms, change will come through workarounds, not through permanent change. These workarounds will range from personal resolutions; company-driven processes; working with other people who have the right capabilities and so on. So like all coaching regimes, the workarounds will tend to be ad hoc, even if there is a prescriptive coda underlying the solution which guides the coach in the right general direction.

But there are some Key Differences....

But there are also some big differences between the two approaches. Some of these are:

- Coaches need to have an excellent understanding of the business side of the house. This does not mean they need to be an accountant or have an MBA. But they must have had enough business experience to understand the business aspects of the coaching engagement such as to be able to earn the respect of a senior executive who is looking for guidance on how to increase their business acumen.
- Although they do not need to be an expert in accounting or financials, they do need to know enough to be able to understand the meaning of the main financial statements. Without this knowledge they will not be capable of interpreting the link with the financial behaviors of individuals or teams in the enterprise, or understanding the links between key metrics such as a gross margin and indirect expenses and the financial behaviors of managers and executives.
- They also need to understand how financial behavior changes and varies with different phases of market and company evolution, and also how it changes with the business cycle. Again they do not need to be an economic expert. However they will be coaching experienced managers and executives, many

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

of whom will understand these issues at a non-formalized but highly intuitive level.

Part Two: Business Acumen Coaching is Different

Coaching Subjects are Often More Senior

One of the more difficult and least talked about issues in discussing HR training is the paucity of training content for senior executives. There exists a large amount for less senior levels. Much of this is vocational in nature. However in the area of leadership development, traditional coaching and content focus on interpersonal skills and the like. By the time managers have become senior they have been through it all and there is little left that is of interest to them, particularly of business interest.

As a result, most HR managers responsible for such programs default to sending senior executives to business school courses. However, these have many drawbacks, besides being expensive. These are:

- They are run by academics often with little real-world experience
- The course are knowledge-based, not behavior-based
- There is no formal assessment of business acumen
- They are not run with intact teams

Reaction by senior executives to the lack of training content specially targeted at them varies. For some, who do not wish to “waste” their valuable time with training, the lack of content is welcome. However, for many other executives, there is a sense of frustration. Many senior executives have a goal of continuing their learning as they grow older and more senior and the lack of content makes them feel that they are wasting valuable learning time and opportunities. This feeling can go right up to the CEO who often feels most frustrated by the lack of good content that he or she can benefit from.

“HR needs to focus on coaching and training content that is relevant to senior executives and not just to middle or junior managers as is so often the case. Business acumen coaching meets this requirement...”

HR needs to focus on coaching and training content that is relevant to senior executives and not just to middle or junior managers as is so often the case. Business acumen coaching meets this requirement since it is new, practical, relevant to immediate business concerns and sophisticated. Many organizations focus business acumen training on the more senior managers for precisely this reason.

This is not to say that business acumen coaching should be directed solely at senior executives. It is also highly relevant to high potentials, and to many middle managers who will advance in the organization but who need more training in business acumen so that they will perform better in a P&L role. But in business acumen coaching there is a presumption that even if the manager is not currently senior, he or she will become senior at some time in the future so that the coaching will help them in the more senior role.

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

It might be thought that if an executive or manager possesses an MBA or other business qualification, they do not need business acumen training. This is absolutely not the case. A business qualification provides knowledge, but does not show the manager how they will behave in different financial circumstances.

Indeed often the possession of an MBA can lead to problems of business acumen because of over-confidence or a misplaced belief that they somehow have learned how to make money by virtue of doing an MBA or business degree. In fact training in business acumen should be regarded as being complementary to a business qualification to show its holder the limitations of their knowledge and how important their own behaviors are to good financial performance. Coaching for MBA holders can be a significant learning experience for them that brings them new perspectives to their own learning limitations and the importance of their own financial behaviors, of which they are almost all unaware.

The message for HR sponsors is that:

- Business acumen coaching is particularly appropriate for more senior executives for whom there is otherwise little or no appropriate training content
- It is a new type of training for high potentials and less senior managers who will move into a P&L position
- It provides complementary training for managers with business degrees

It Focuses on Financial and Valuation Outcomes

The key difference between traditional and business acumen coaching is that the latter focuses on financial outcomes. This is not to say that other outcomes are not important, just that this is what this type of coaching is focused on. Traditional coaching focuses on interpersonal outcomes and this also is very important.

In business acumen coaching, the coach and the subject need to set a baseline both of the financial traits that link with financial outcomes and a baseline also for the actual financial outcomes themselves, measured quantitatively and through existing financial recording processes in the unit or organization of which the subject is a part.

Usually these metrics will be the gross margin as a proportion of sales and indirect expenses as a proportion of sales. In both cases we will aim to compare this with peers, competitors or colleagues so that we know whether the baseline performance is above or below par. This allows the coach to link financial behaviors with quantitative financial outcomes and to set targets for improvement.

"The key difference between traditional and business acumen coaching is that the latter focuses on financial outcomes."

Of course there will be some interpersonal – as well as other behaviors – that impinge on financial outcomes and the job of the coach is also to take these into account. But at the end of the day, the job of the coach and the subject is to set as

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

targets financial outcomes which can be measured so that performance as a result of the coaching can be assessed at a future time.

This also goes for team coaching where the team's financial behaviors also need to be assessed in the same way. Of course, ideally the team will be assessed first. In this case the individual will have a good idea of the team baseline and target before they commence coaching. This then increases the effectiveness of the individual coaching since the subject understands what the target of the team is, the solutions they have formulated as a team, and what they need to do as an individual to support the team effort.

There are three type of recommendation that can be provided to the coaching subject:

- Behavioral
- Organizational
- Process

Behavioral changes are ones where the change in financial outcome proceeds solely from changes in behavior on the part of the subject. This may be as easy as not being quite as open with expenses as they have usually been. It may be more subtle such as reducing extroverted behaviors in order to cut the costs involved in building relationships, with which the subject is particularly comfortable. The Perth model compares Financial Signature and Mission in order to show the precise types of changes that need to be made in order to have a financial impact.

Organizational changes refer to changes either initiated by the subject, or to which they will be subject, that lead to changes in their financial impact. Examples are quality review committees to increase gross margin impacts of their actions or adding a new manager with particular skills – says sales – to increase sales and sales growth. The Perth model also embodies a formal approach to show the range of organizational changes that can be made that will have the required financial impacts.

Process changes are those actions that change the way things are done which will also have an impact on financial outcome. Examples are changing compensation from a revenue-based to a gross-margin-based commission in order to increase gross margins, or changing a hiring process to place more emphasis on business acumen.

To sum up, the end-result of the coaching work is to improve capital creation, profitability and market value and all recommendations and coaching must eventually be focused on these outcomes with recommendations having a direct impact on their achievement. If these recommendations do not have such an impact then the coaching has not achieved its goal.

Coaches Must Have High Business Credibility

A crucial issue in business acumen coaching is the selection of coaches. This is a different field to traditional coaching. Coaches will frequently be coaching senior

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

executives. If they do not have business credibility with these executives, they will not have credibility as coaches. Having the right background is crucial to gaining the respect of the coaching subject without which the effectiveness of the coaching will be at risk.

For most traditional coaches, using a behavioral finance approach is not possible, or may be very challenging. Most have a background in either industrial/organizational psychology rather than business. As a result, the training completed by traditional coaches will not generally equip them to conduct behavioral finance-based coaching.

This is not to say that some traditional coaches cannot make the transition; they can and often do. Where this occurs it is invariably because they have a strong business background and understanding of financial statements and are able to make the necessary linkages between behavioral, financial and business factors.

In the case of Perth coaches, these are generally people with high interpersonal skills with a strong business background who have come to the coaching profession later in their career, as distinct from career coaches who generally started off with a psychology degree and went straight into coaching. In terms of qualifications they may or may not have a business qualification such as an MBA. Often they do and this is a definite plus although it is far from being mandatory.

There is Little Organizational Familiarity with these Approaches

In undertaking business acumen coaching, it is key to put in place a support infrastructure so that subjects of the coaching – individuals and teams – can put their knowledge to work effectively in the wider organization. This is crucial since business acumen coaching is very new. The rest of the organization including supervisors, other teams and units will not have any knowledge of the approach, will be unfamiliar with the model and the vocabulary, and therefore will not understand the vocabulary once coaching participants introduce the topic and seek help.

In our experience, most subjects immediately start to use the new vocabulary they have learned through the training and coaching. They will have been provided with recommendations for improvement. In many if not most cases this will require the support of supervisor and colleagues. If these do not understand at least the basis of the model and some of the vocabulary they will not be able to provide some of the support needed for the subjects to improve. This will limit the usefulness of the coaching.

“...many of the recommendations will involve not only behavioral change but change to some organizational processes...”

This is different from most traditional coaching where the coaching and psychological model underlying it is well known and much of the information widely understood by colleagues and supervisors. In adopting a behavioral finance approach, because it is so new, this infrastructure is usually not present. So it is more important to get this part right with behavioral finance coaching than with most other traditional methods.

It should also be recognized that many of the recommendations will involve not only behavioral change but change to some organizational processes as a way to add

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

support to the coachee. For example, there may be a recommendation for the subject to set up a financial committee in their team involving a member of the finance area. In this case the finance team and the supervisor need to understand why a committee is needed in the first place – to counteract tendencies to go it alone on these issues which pushes up costs – and the financial team needs to understand why they are being asked to participate.

So in formulating a business acumen coaching program, HR or whoever is charged with the responsibility for developing the plan must take into account these broader aspects in their planning in order to maximize the effectiveness of the program. The program can still have major impacts on the individual and even the team without this wider support, but the long-term impact of the program is likely to be far lower and its ability to have a transformational impact, which we deal with below, will be even lower.

Part Three: What You Should Expect from Business Acumen Coaching

Different Levels, Different Expectations

Depending on the level of the subject coached, there will be different expectations on both sides concerning the focus of the coaching and the outcomes that can be achieved.

C-suite executives are primarily seeking to increase the valuation of the organization. Coaching needs to link their financial behaviors to valuation outcomes, including market capitalization, competitive valuation metrics and equity implications. They want to see stock prices increases and analyst upgrades. Or, if they are nonprofits or government executives, they are seeking to increase the attractiveness and perceived effectiveness, especially the financial effectiveness, of their organizations – their valuation in effect – to their stakeholders, be they donors or voters.

Senior executives (VPs and EVPs): these executives are primarily concerned with profitability and much less with valuation. They want to see how to link their financial behavior to profitability and to compensation outcomes. Their financial metrics will be gross margin expenses and operating profits or operating margins for a business unit.

Middle managers (Directors) are primarily concerned with meeting budgets and with linking their own financial behaviors with budgetary outcomes. Their primary metrics are budget performance, be it meeting cost goals, revenue goals, or contribution margin in some cases.

Junior managers (Managers) are generally not concerned much at all with financial outcomes. Here the need is to show the importance of financial outcomes, what business acumen actually is and how it will impact their performance if and when they get into positions that handle budgets, P&Ls or unit or enterprise performance.

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

In planning a business acumen coaching program, these different expectations need to be taken into account. Coaches who are good at one level are frequently not good at another. Many coaches will find it challenging or impossible to meet the expectations of the most senior executives. However, coaches who can meet the needs of senior executives frequently are not able to meet the expectations of less senior or middle managers and may often be culturally incompatible with them. So matching coaches is an important consideration.

Variations in Leadership Agility Lead to Varying Degrees of Effectiveness

Coaching in business acumen will have varying degrees of effectiveness depending on the coaches and the environment. The biggest single factor is the degree of leadership agility and flexibility of the coaches. In general we have found the following:

- Around 50% of the subjects of coaching will be impacted significantly and positively in their subsequent financial behavior.
 - Of this 50%, the change will be sustained for longer than six months in about half of the group
 - For the other 50% of this group, even though the initial impact is significant, the change will not be sustained
- Around 50% of the subjects will experience some or no change
 - Around half of this group will understand the approach but will respond only in a minor way
 - The other 50% of this group will understand the approach with some difficulty or not at all, and it will have no impact on them.

This means that for any group of managers that undergo the program we can expect 25% to experience significant and sustained change in financial behavior and impact.

Another 25% will experience significant benefit but will not sustain this behavior or impact.

For the remaining 50% there will be little or no measurable benefit.

We should note that these figures on impact almost certainly are able to be generalized to almost any program of behavioral change. That is, there is probably no program of behavioral change which will impact all or even a sizeable part of a coached group significantly. An impact of 50% experiencing significant benefit and 25% with sustained benefit is almost certainly a very good outcome.

Unfortunately, as with most programs for coaching and behavioral change, there is no reliable way to predict beforehand who will benefit and who will not.

Like all Coaching, It Must Address Reversion

All humans are to some extent hard-wired in their behavioral traits. Even successful coaching programs will see at least some degree of reversion to the traits with which

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

the individual or the team is most comfortable with. We deal below with to what extent a particular group will benefit from business acumen coaching programs. However at the outset we must plan for reversion even in the most successful participants.

There are at least two components in any plan to deal with reversion. The first is to make participants aware that, even if the program is successful, reversion will undoubtedly occur. In this way they can start to make mental preparation to at least slow the process and to plan ways to compensate for it.

The second component is that any coaching program just be regarded as a process not an event. Participants would be made aware of this also. The program should incorporate a provision for re-assessment at later dates, booster courses later and self-awareness exercises along the way. In any company, often under pressure, with HR sponsors often diverted to other pressing tasks, this issue may well get left behind. If it does, the program will achieve less than it otherwise would, just like any other program of behavior modification or change.

Organizational Factors are Critical

We should also note that organizational factors are probably just as important as individual factors. Some of the important factors are:

- **An intact team:** if the program is conducted on an intact team, the impact will be greater and will increase as the cohesion of the team increases. However high potentials are an important example of a non-intact team that still benefits significantly since this coaching simulates a P&L experience for them.
- **Management support:** if there is strong management support which is reinforced both before and after the event, the effectiveness of the program will be greater.
- **Process integration:** if some of the recommendations of the program are integrated into existing organizational processes such as recruitment, budgeting, compensation, recruitment and development, then the effectiveness of the program will be greater.
- **Organizational volatility:** the greater the degree of organizational volatility and pressure, the less the impact of the program over time.
- **Individual stress:** the greater the degree of unplanned stress on the individual, whether it be from personal or professional pressures, the less the impact of the program; however by providing feedback on their financial behavior vulnerabilities the coaching can actually precipitate major behavioral change
- **Matrix organizations:** the more the organization is matrixed and the less the level of managerial accountability, the less the impact of the program unless explicit provision it made to address this issue in which case it will significantly help to address the lessening of management accountability in the organization.
- **Professional culture:** the more the organization is run on the basis of professional rather than market criteria (e.g. a hospital, a very engineering-focused company) the less the initial receptiveness to a program. And hence the greater its potential impact and effectiveness.

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

Of course there are organizations where many adverse factors are present, but the local sponsor provides strong support where the impact can therefore be very high. However, in designing a program all of these factors must be taken into account in setting expectations for the eventual impact of the program.

Expect Major Changes in Some, not all, Participants

Without actually measuring changes in financial behaviors (see below), certain changes will be observed for the 50% of the group for whom there is significant impact:

- The individuals in the group will become much more reflective about financial decisions and about nonfinancial decisions that have a financial impact; their knowledge of their own financial traits will lead them to mentally correct for their now-apparent innate financial biases when making any sort of financial decision or non-financial decisions with financial implications.
- These members of the group will tend to use the vocabulary of the model with each other and apply it to a range of situations including the types of managers they should be recruiting, the types of financial outcomes they should be aiming at, whether their decisions are achieving the company's financial mission and so on.
- These group members will explicitly use behavioral cost-benefit analyses when they make financial decisions weighing whether the expense impacts of a given decision or strategy will be more than compensated for by the increased gross margins (if any) resulting from it.
- Group members will start to explicitly apply these criteria to decisions of the other members of the group and they will engage in discussions about the relative merits of a decision based on gross margin and expense criteria.
- Group members will collectively become vastly more aware of the innovation issue and the extent to which they can change their own and the team's behavior to encourage practices which will improve gross margins and long-term sustainability.

Coaching Outcomes Must be Measured Quantitatively

In the Perth model we measure the two behavioral finance drivers of value adding and resource utilization using the financial metrics of gross margin and indirect expenses. For a variety of very strong reasons we do not use the concept of profitability, at least not in its accounting form. So the coach and the subject need to keep a close watch on these metrics.

There are a variety of possibilities concerning how we find these figures. In the case of a CEO we can look at these metrics at the company level but there will not be too many CEOs in one company undergoing the program. The majority of subjects will likely be at the more senior levels of management although there will be some high potential and intact teams in various functional areas.

Where there is a team with a P&L such as a standalone business unit, it will still be comparatively simple to find these metrics. We can also find them for many smaller

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

units which have their own P&L. In many cases we will have a team comprising a cost center where we may have to reconstruct a virtual or notional P&L showing the part of the P&L on which the team has an impact.

At the individual level, if we have a unit head, then the unit's financial metrics will still be meaningful and we can draw direct linkages between behavior and financial outcomes. Where there are members of the units below the head, we have to make some adjustments to account for the fact that they are a contributing team member rather than the head of the unit.

This is to say that we must tailor our identification of the metrics to the position of the units in the organization, to whether it is a cost center, a P&L unit, or neither. Then we have to add in expectations of the likely or achievable impact that changes in behavior can have on the appropriate financial metrics.

The two core financial metrics will be impacted in different ways and at different times by changes in financial behaviors. Taking first indirect expenses: expenses can be impacted very quickly, particularly if they are being cut. Conceivably a cut in expenses can occur almost immediately. An increase in expenses (this is also a possible desirable outcome in many situations) will probably take longer. So in assessing the impact on financial metrics for expenses we have to take the range of conceivable time periods into account although it is quite possible they will take place within a quarter or within a budget period. So in reviewing performance against coaching goals we can see changes in expenses within a short or maybe a medium term time period.

“Material changes in gross margin require changes to the product value added and this may only take place outside of a normal product cycle.”

However gross margin is a different story. Gross margin reflects what a customer is prepared to pay for a product or a service and how they value it compared to the competition. Material changes in gross margin require changes to the product value added and this may only take place outside of a normal product cycle. So major changes in value-adding behaviors by a coach or team may not appear in financial metrics for a product cycle which could be anywhere between a few months at the least until several years. This means that major changes in value-adding behavior take longer to reflect in financial statements and thus it is not quite as easy to measure the impact of the coaching.

Nonetheless most changes in value adding behaviors are not as likely to be product changing but tactical in nature. These may well show up within a product cycle. So tactical changes in value adding behaviors or fine-tuning of product changes which impact gross margin can be measured and seen directly within a product cycle although even then they may well take longer to go through to the metrics than changes in resource utilization behaviors.

It is the job of the coach to find constructive ways to use these financial metrics as a gauge to assess the impact of the coaching of the team and the individual on financial statements. Usually a discussion about these linkages and an explanation of what events occurred as the metrics changed will be enough to establish causal or associated patterns. With this information we can now assess whether or not the team and the individual have responded well to the coaching in such a way as to increase financial performance and to reflect increased business acumen in practice.

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

As always the coach also needs to assess to what extent changes in metrics may reflect other external events as well as financial behaviors. It will often be the case that factors other than financial behavior are involved. Usually a team will be able to make a fair assessment of what factors caused what. The coach needs to be alert to the various factors and to making a reasonable assessment as to what constitutes the impact of coaching and what is the impact of these other factors.

Following are a list of outcomes that you would expect to see from an effective business acumen program.

Individual

- Material reduction of expenses in the short-term.
- Increase of individual financial performance through reduced expenses in the short- to medium-term and through increased margins in the medium- to longer-term providing the program is sustained.
- An increase in expenses which is accompanied by an even greater increase in gross margin, reflecting increased financial performance.

Team

- Material reduction of expenses at individual and team levels.
- Increase of unit and company valuation through reduced expenses in the short- to medium-term and through increased margins in the medium- to longer-term providing the program is sustained.
- Improvement in financial acumen and the ability to see and advise on financial opportunities and to maximize their commercial benefit.
- Improvement in individual capability to deliver improved financial performance outcomes.
- Increase in clarity for leadership teams on how to achieve financial performance improvement in the context of the organization's financial goals.
- Stronger and more aligned management systems and processes.

Corporate

- Increase in unit and organizational profitability.
- Providing the program is sustained, increase in unit and company valuation through:
 - Reduced expenses in the short- to medium-term
 - Increased expenses that result in more-than-offsetting margins
 - Increased margins in the medium- to longer-term.

Business Acumen Coaching can be Transformational

To many managers in HR, business acumen is not a familiar term or idea. Almost all of the leadership programs run by HR are either directed at interpersonal skills, or at vocational competencies. Often business acumen is confused with financial literacy and so many HR managers believe that they have this covered through programs such as sending executives to business schools for short courses.

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

However business acumen is a behavioral not a knowledge issue and such business school courses do not touch this area at all. In this respect, a business acumen program is also a transformation program since it can modify behavior in ways that are significant from the perspective of revealing new ways to increase the market value of the company.

Moreover, business acumen, at least in the Perth model, is intrinsically and tightly linked to an individual's innovation potential. The Perth business acumen assessment measures two variables, value-adding and resource utilization behaviors. The value-adding behavior is a measure of an individual's ability to create new commercial

"...business acumen, at least in the Perth model, is intrinsically and tightly linked to an individual's innovation potential."

products or services in the Perth model. A key part of the coaching program is therefore focused on this issue with an individual, showing them how they perform in this area, and discussing ways to increase this ability.

Since the briefing and coaching occurs at the team as well as at the individual level, coaching in business acumen can therefore also be regarded as an innovation program. In the Perth model it is taught

that innovation does not occur without innovators and the coaching program focuses to a great extent on how the individual and the team can become more innovative and what behaviors, process and organizational changes can stimulate this.

In fact, a business acumen program teaches that the revenue side of the market value equation is driven by value adding behavior and that this must be such as to more than outweigh resource utilization caused by the individual or the team's behaviors. So innovation behaviors are tightly woven into a business acumen program.

Far from being a program that might, at first blush, felt to be about dry financial issues, the program shows the behavioral relationship between innovating and resource utilization behaviors. As such the programs are essentially about innovation and how to make it profitable and thus add to the market value of the organization. In fact, most Perth programs end up focusing especially on innovation and how to improve it. They thus often osmose into innovation and transformation programs but in a context which stresses the financial consequences and market value implications of such programs.

When planning a coaching program of this nature it is important also to set expectations around the innovation potential of the program to show participants some of the aspects that they might not have expected and the potential for transformational change that transcends what they might have felt to be purely financial issues, however important. Participants need to understand, as does HR and other managers sponsoring the program, that this type of coaching has potentially transformational impacts that might well support other efforts at organizational transformation.

In the context of the current economic crisis and slowdown, a coaching program that links business acumen, increasing market value and organizational transformation is particularly appropriate. In the Perth coaching, stress is laid on the fact that cost cuts on their own only have short-term value. To be most effective they have to be linked to concomitant increases in value-adding behaviors and an increase in value

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

adding and thus gross margins. This brings the correct balance to training that boards and shareholders want to see in their managers throughout the organization.

Badly-Needed Complement to Regular Coaching Programs

Most companies have some coaching programs. As we have said these are usually focused on interpersonal skills and personality. Business acumen coaching programs complement these well. Launching a business acumen coaching programs has the following benefits:

1. It counteracts the bias towards interpersonal-only programs.
2. It enhances the credibility of HR with the business side of the company, showing them that HR is concerned also about business outcomes, often an issue on which the business side may have some doubt or even worse.
3. It provides a new type of coaching experience to executives and new perspectives on their own behaviors and career potential.
4. It provides a new angle for succession programs and for judging executives' capability for different positions and roles
5. Combined with the results of other types of leadership assessment and other types of coaching programs, it provides a more complete picture of a managers' capabilities and potential, both to the organization and to themselves.
6. In a recession it convinces the business side that coaching and HR programs are firmly focused on survival and the bottom line and that these programs are being designed carefully for the particular and pressing financial needs of the moment.

HR has a need to be seen to be taking a seat at the business table. Business acumen coaching programs are a strong way to demonstrate that HR is aggressively moving into this role.

Case Studies Make the Point

COO of major publishing company completes assessments and coaching and immediately starts making financial decisions in a very different way that immediately improves profitability – states that he paid for full Perth program with first major financial decision he made after completing the program.

CFO of Fortune 500 restaurant company indicates that his financial performance increased 30-50% within 3 months of completing program and that he started putting recommendations into effect immediately after completing Perth program.

High potential young middle manager completes Perth assessments and coaching and immediately supervisors note major difference in his ability to improve profitability.

Young customer service manager has dramatic financial impact due to Perth coaching and is promoted over much more senior managers as a result.

COACHING LEADERS IN A RECESSION - IMPROVING FINANCIAL IMPACT AND BUSINESS ACUMEN

CEO of major division of multi-billion dollar company for the first time understands what is holding back his financial performance and makes major and dramatic new decisions which have major impact on profitability.

CEO of energy company uses Perth assessments and coaching for his senior management teams and sees significant impact on profitability in his senior staff, plus is able to spot the ignored profit achievers who could be elevated to more senior positions.

General Manager for innovation in Fortune 100 company indicates that his financial impact improves dramatically after doing Perth program.