

# Developing Commercial Acumen for the HR Function

“Commercially astute executives have an ability to foresee what may be round the corner. They are able to anticipate market and competitor trends. It's about showing foresight as well as insight.”

**Sir David Varney, formerly a Managing Director of Shell UK,  
Chief Executive of British Gas and Chairman of O2.**

# Developing Commercial Acumen

Gillian Pillans and John Kind

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Mike Haffenden

## Foreword

HR often has to justify itself over its role, its output and its added value. In some cases this is deserved as we become involved in unsubstantiated opinion, fads and fashions, are reluctant to use data or are unable to evaluate our initiatives.

This report is written from the viewpoint that we believe that HR functions can make a substantial contribution to improved organisation effectiveness and business strategy. However, to do this HR professionals have to be business people as well as HR people. We have to be able to ask searching questions, analyse situations, develop and implement improvement plans and be able to assess their effectiveness in business, not HR terms.

The problem is, it is not easy to become 'commercial'. Far more than merely being financial, it is a fusion of inquiry, attitude, knowledge, experience and skills. It is about challenging and constantly improving the status quo – starting with an understanding of the problem, not force fitting the solution.

This report is short and practical, summarising the views of experienced practitioners and senior business leaders on what commercial acumen is and how it should be applied.

It's not definitive but is a start!

It is not intended to be read as an abstract. To optimise its usefulness read it and apply to your own circumstances and situation.

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## About CRF

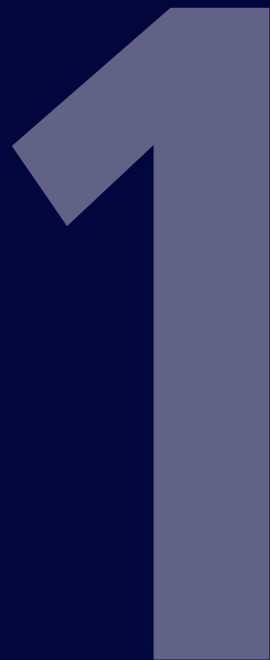
Founded in 1994, the Corporate Research Forum (CRF) is a membership organisation whose international focus is on research, discussion and the practical application of contemporary topics arising from people management, learning and organisation development. CRF has become a highly influential focal point and network for over 100 members representing a cross-section of private and public sector organisations.

- Its annual programme of research, events and publications fully reflects members' interests, in addition to the annual international conference. Side meetings and interest groups are also initiated to meet challenges that members might have.
- Contributors are acknowledged experts in their field with a worldwide reputation as leaders and innovators in management thinking and practice.
- Sharing and collaboration among members is a key feature of CRF's activities. We actively encourage networking at all events, and especially through member lunches and HR director dinners.
- The Forum is led and managed by highly regarded former HR professionals who have a passion for delivering excellence in the leadership and development of organisations and people.

CRF's goal is to be valued for excellence, rigour, relationship building and providing an independent view which, together, lead to measurable improvement in members' people and organisation performance.

For more information on CRF please visit [www.crforum.co.uk](http://www.crforum.co.uk) or contact Richard Hargreaves, Commercial Director at +44 (0) 20 7470 7104 or via e-mail at [richard@crforum.co.uk](mailto:richard@crforum.co.uk)

# INTRODUCTION



What are the characteristics of consistently successful businesses? Is it the ability to innovate and to launch a regular flow of new products and services? Is it the ability to attract and retain high quality talent? Is it about creating new markets and to increase market share?

Of course, all these factors are critical. But in the business world, the defining criterion is companies' ability to achieve superior financial performance and to deliver outstanding shareholder returns especially in the longer term over, say, 5 and 10 year periods.

Such results do, of course, need to be accomplished by demonstrating high levels of environmental, ethical and social conduct as governments and other important stakeholders such as customers and investors pay increasing attention to issues of corporate governance and regulatory compliance.

### Standards of financial performance

In the UK in early April 2013, the Financial Times Index of leading shares (the FTSE-100, those 100 companies with the most valuable stock market values) was at 6,250, nearly 10% higher than 5 years ago. The most valuable FTSE-100 company at this time was the bank, HSBC, with a stock market value of £126.5bn.

Businesses such as Compass, the world's largest contract caterer (number 30 in the FTSE-100 list with a stock market value of almost £15bn), have seen their share price increase by more than the 10% achieved by the FTSE Index. Compass's has risen by more than 150% during the past 5 years.

A number of other FTSE companies have 'outperformed'. They include Associated British Foods (number 31 in the FTSE-100 list with a stock market value of £14.7bn). It's a diversified group operating in segments such as Agriculture, Retail (Primark) and Grocery (Twinings tea and Ovaltine). Its share price has increased by 112% over the past 5 years, eleven times greater than the rise in the FTSE-100 index.

By contrast, well known businesses such as Kodak and Nokia, the Finnish manufacturer of 'smart' handsets have not performed nearly as well. Kodak filed for bankruptcy protection in the United States in 2012. The Nokia share price has fallen significantly in the past 18 months as competitive pressures intensify. Shareholders have lost most, if not all, of their investment.

In the UK, since January 2013, businesses such as HMV, Jessops and Blockbuster have all gone into administration following financial difficulties. They face highly uncertain futures with serious consequences for customers, employees and shareholders.

The financial markets are demanding. They do not appreciate profit warnings and unpleasant surprises. In their eyes, a company is only as good as its **next** set of results, not the last set. This pre-occupation with financial performance and 'returns' should come as no surprise. Companies, large and small, need to be profitable. They must generate cash to invest and to finance their expansion plans. Shareholders, as the owners of the businesses concerned, expect consistently higher levels of dividends to be paid.

### Quoted companies

In the case of businesses with a stock market listing ('quoted' companies), their principal investors or shareholders are fund management groups, insurance companies and pension funds. These stakeholders invest to increase their wealth in order to finance their pension liabilities and to attract additional funds to reinvest in their portfolios.

This is borne out by the findings in PricewaterhouseCooper's (PwC's), annual CEO survey (see reference in the Reading List). In 2012, CEOs expressed an overriding concern to deliver superior financial results and 'value' for their shareholders.

### Talent pools

Developing an increasing pool of commercially astute executives is becoming, therefore, a more pressing priority. As the PwC report makes clear, talent shortages are inhibiting growth plans. One in three CEOs expressed concern that 'talent gaps' are restricting their companies' ability to innovate effectively.

### Talent constraints have impacted costs - but also factor in lost opportunities

*Q: Have talent constraints impacted your company's growth and profitability over the past 12 months in the following ways?*



Base: All respondents (1,258)  
Source: PwC 15th Annual Global CEO Survey 2012

For the HR function the stakes are high. It means improving its effectiveness to attract, retain, motivate and develop the talent its businesses require. It could not have a more fundamental and important responsibility. However, in many organisations there are doubts about HR's business knowledge and judgment and the relevance of some of its activities.

**This leads to the focus of this report – what can and should be done to make executives, at all levels and in all functions, 'fitter for business'?**

### Commercial acumen

The differentiating factor between companies who 'outperform' and those who don't is the degree to which they demonstrate 'commercial acumen'.

Accordingly, this report sets out to:

- **Define** 'commercial acumen'.
- **Explain** why it is such an important factor in achieving business goals.



- **Identify** the knowledge, skills and behaviours that demonstrate ‘commercial acumen’.
- **Provide** checklists, tools, techniques and references to stimulate the development of ‘commercial acumen’ both at individual and organisational levels.
- **Highlight** case studies and good practice to demonstrate ‘commercial acumen’ in action.

**The HR Function**

The HR Function, in particular, is criticised for its lack of ‘commercial acumen’. A recent report by KPMG and the Economist Intelligence Unit (see Reading List) revealed that HR has much to do to improve its commercial credibility and expertise.

The survey found that:

- Only 25% of respondents considered that their HR function excelled in important areas such as the sourcing and retention of talent.
- Less than 20% of respondents considered that HR demonstrated its value to the business.
- Only 1 in 4 respondents considered that HR was capable of supporting their company’s strategies.

**In which of these areas do you think your company’s HR function excels? Select all that apply.**



Source: Economist Intelligence Unit study as commissioned by KPMG International: Rethinking Human Resources in a Changing World, 2012

For these reasons, we devote specific attention to what HR professionals should do to support their boards and line management teams to achieve their commercial objectives.

**How to use this document**

We bring together evidence and insights from interviews with ‘top’ executives and leading HR practitioners. We also highlight a number of useful tools, some developed by CRF and others developed by experts in the relevant field. In many cases we have only provided a taster, and further information can be found by consulting the sources in the Reading List or online.

The Appendices contain a number of resources and tools which are referred to in the report, as well as a Glossary of Business and Financial Terms, which explains terms used throughout.

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