

SPEED READ >>>

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.

01

WHAT IS COMMERCIAL ACUMEN?

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? Or to attract and retain high quality talent? Or to create new markets and increase market share?

Of course, all these factors are critical. But in the business world, what really counts is achieving superior financial performance and delivering consistent superior shareholder returns, especially in the longer term. The differentiating factor between companies who 'outperform' and those who don't is the degree to which they demonstrate 'commercial acumen'. In this Speed Read we define commercial acumen, explain its importance to achieving business goals, and identify what can and should be done to make executives, at all levels and in all functions, 'fitter for business'.

Developing business skills is a particular challenge for the HR Function, which is often criticised for its lack of commercial acumen. Therefore, we devote specific attention to what HR professionals should do to help their organisations achieve their commercial objectives.

We define **commercial acumen** as the skills that enable individuals, departments, functions and teams to deliver excellent performance for a business or business unit so that:

- Its revenue or sales increase.
- Its profitability improves.
- Its cash generation gets better.
- Its shareholder value is enhanced.

Our research highlighted a combination of personal characteristics, thinking styles, knowledge and experience that distinguish commercially minded professionals. They are summarised opposite.

See our [full report](#) for a checklist that assesses how commercially astute you are and where you may have gaps in your knowledge and experience.

Personal Characteristics

Commercially-oriented attitude	<ul style="list-style-type: none"> • Shows an interest in business and a curiosity regarding the business world generally. Devotes time to learning about business through reading, research and internal and external networking. • Understands the commercial profile of the business sector within which the company or organisation competes. • Can explain the ways in which the business makes money/adds value – its business model including where it has competitive advantage.
Executive mentality	<ul style="list-style-type: none"> • Able to see the 'big picture'; understands how different parts of the business operate together to deliver results and how business and financial metrics reflect the company's performance. • Able to discern patterns amongst a wide variety of trends and bring them together to produce profitable outcomes. • Understands how their function and its day-to-day decisions affect the overall performance of the business. • Understands what other functions do and how they interact.
Being a commercial leader	<ul style="list-style-type: none"> • Sets clear, agreed and quantifiable objectives. • Makes sound business decisions. • Resilient; prepared to take tough decisions in the best interests of the business. • Makes things happen. Converts talk into action. Follows through. • Measures and monitors performance. Addresses failure to achieve results. • Sets and maintains high professional standards.

Skills and Knowledge

Analysing the business situation	<ul style="list-style-type: none"> • Able to size up the business situation and identify what needs to be done. • Can devise performance improvement plans. • Can prepare and present a convincing business case for a longer term project.
Financial skills	<ul style="list-style-type: none"> • Understands the key financial metrics that are used to measure business performance. Can explain what they mean and how they interact. • Able to interpret financial results to determine financial strengths and weaknesses, and develop an appropriate course of action.
Delivering business results	<ul style="list-style-type: none"> • Able to prepare budgets and longer term business plans. • Achieves budgeted results. • Can use project management methodologies such as 'Goal Directed Project Management'. • Understands and can apply suitable business process improvement methodologies such as 'Lean Thinking'. • Understands risk management, and aware of trends in business ethics, corporate social responsibility and corporate governance and the implications for the business.
Negotiation and selling	<ul style="list-style-type: none"> • Good negotiating and deal-making skills. • Able to sell and gain buy-in to plans and proposed actions. Displays excellent influencing skills.

02

THE COMMERCIAL MANAGER'S SKILLSET

In this section we expand on the 'Skills and Knowledge' section of the Profile introduced above. We group these according to the four areas of 'Skills and Knowledge' identified in the profile: analysing the business situation, financial skills, delivering business results, and negotiation and selling.

ANALYSING THE BUSINESS SITUATION

Before delving into financial metrics, it is important to understand the big picture within which a business operates, and be able to size up a situation to identify what needs to be done. This means:

- Decisions are based on thorough analysis of relevant data.
- Considering the principles of cause and effect, i.e. will the selected option lead to the desired outcome?
- Setting clear objectives.
- Being clear about why a particular solution is suitable for the business context in which it is to be applied.

Good commercial managers seem to know instinctively what will work and what will not. However, it is useful to have a framework for developing ideas and checking all factors have been considered. There are many tools available – SWOT or PESTLE analysis or McKinsey's 7S model for example - which you can use to help you develop insights into what is going on within your business, its customers and competitors, and to shape a successful action plan. See our [full report](#) for an in-depth look at eight of these tools.

FINANCIAL SKILLS

Being commercial requires the ability to understand and interpret financial information. It is not necessary to be

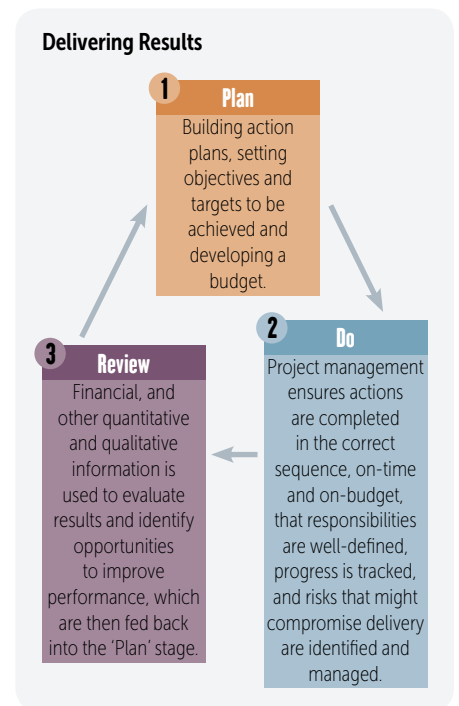
an accountant but it does require the motivation to learn the 'language of business', to become financially literate, to engage with the finance function and to understand their views. It means:

- having the ability to 'read' financial statements and to be conversant with the most important financial performance indicators – how they are calculated and what they mean – to identify the business's financial strengths or weaknesses
- being an active contributor when financial issues are discussed and business decisions are made
- using financial information and financial indicators and applying financial knowledge as the basis for identifying performance improvement opportunities (what 'story' are the 'financials' telling us and what are we going to do about it?).

See our [full report](#) for a detailed discussion of financial objectives and priorities that are fundamental to business, including financial questions that need to be asked within the business, indicators and benchmarks that can be used to answer these questions, and the meanings of key financial terms together with numerical examples.

DELIVERING BUSINESS RESULTS

The ultimate test of commercial acumen is the business results that are achieved, whether they are measured in financial or other terms. Delivering results usually involves an iterative process of Planning, Doing and Reviewing. At each stage in this process there are key skills that need to be acquired, and tools available to assist.



NEGOTIATION AND SELLING

No business can make money unless it is able to sell its products and services. Selling ideas, projects or solutions – as well as products – is a critical business skill, and one which is seldom taught. Great products or ideas that people won't buy are worthless. So we all need to know how to sell.

Similarly, executives need to be able to negotiate well to achieve the best possible deal to maximise profit, whether in a formal across-the-table commercial business negotiation or in day-to-day interactions with colleagues. Negotiation and selling are therefore two critical skillsets which commercially-oriented professionals need to master. See our [full report](#) for more detail on resources for developing skills in these areas.

03

DEVELOPING A COMMERCIAL CULTURE

Companies need talented commercial people to prosper. However, good people will only thrive in an environment that allows them to flex their commercial muscles, develop skills and experience, and be rewarded for success. Here, we identify key features of companies that foster strong commercially-focused cultures.

DRIVE ACCOUNTABILITY TO THE LOWEST POSSIBLE LEVEL

Our research has found that one of the consistent markers of commercially successful organisations is they make people close to the 'coal face' accountable for results, give them the autonomy to deliver, and do it as early in their career as possible. Accountability tends to drive ownership and commitment to deliver high performance. Holding people accountable for their performance in turn drives better results. This appears to work because:

- They are closest to the customer and therefore best placed to understand and respond to their needs profitably.
- They understand the possibilities, challenges and constraints of business operations and what needs to be done to make things happen.
- They can respond more quickly to market changes without having to go through lengthy approval processes to make a decision.
- Work is more satisfying without constantly having to seek approval.

Driving accountability low in the organisation may be an easy statement to make, but can be culturally difficult for centralised, hierarchical organisations that operate on tight command-and-control structures.

SIMPLE, CLEAR COMMERCIAL OBJECTIVES

Successful businesses do not tend to micro-manage what their executives do, but rather set simple, clear objectives and allow managers the freedom to deliver, intervening only when performance is going off track. This can be highly motivating for staff.

COMMUNICATION

Regular, open communication of objectives and results across all levels in the organisation is critical to developing a commercially-driven culture. Companies who are good at this are focused on:

- Fostering a culture where customer issues, financial targets and performance are openly discussed. Problems are brought to the surface and people have the opportunity to contribute to solutions.
- Making business leaders visible. There is regular communication about what's going on with customers, markets and business performance, through different communication channels and covering the whole workforce.
- Communicating the company's strategy, business model and financial and business objectives widely and sharing performance against plans.
- Making sure communications are cascaded effectively throughout the organisation, especially into support functions that may not have day-to-day exposure to what is going on with customers.
- Promoting a culture where it is seen as important for everyone to be intellectually curious about the business, which in turn means it is taken seriously by all.

ACHIEVING A BALANCE BETWEEN FREEDOM AND CONTROL

Working in a large organisation inevitably involves dealing with a degree of bureaucracy, which can discourage the application of commercial acumen. Being commercial usually involves taking calculated risks, and the more bureaucratic the organisation, the more difficult it can be for people to take 'good' risks. However, a lack of sufficient controls can lead to staff applying commercial acumen for personal gain rather than the best interests of the business, and in extreme cases this can lead to fraud. Organisations therefore need to achieve a balance between having controls that are too lax, potentially putting the business at risk, and being overly risk averse and thus stifling commercial flair.

04

PERFORMANCE

There are basic words about work that people use every day – like ‘manager’, ‘strategy’ and ‘job’ – which it is easy to assume that everyone understands the same way. In reality, they are subject to quite varied interpretation, which can have significant consequences. ‘Performance’ is one of these deceptively simple words – in constant use, but which requires definition and agreement before there is shared understanding.

When applied to work (as opposed to, say, artistic performance), the core meaning concerns how and whether an individual, team, organisation – or a product, service or process – achieves **objectives**.

Any manager with commercial acumen must by definition have a deep understanding of what drives both personal and organisational performance – and what actions they can take to improve performance.

PERFORMANCE OBJECTIVES

At the heart of debate about performance is how well objectives are determined, articulated, and **measured**.

Here are some important considerations in framing objectives.

- Quality standards – what does ‘good’ look like, and similarly what is ‘excellent’ (exceeds expectations), poor or unacceptable?
- Motivation – goals that are intrinsically inspiring are more likely to be achieved, and vice versa.
- Stretch (or ‘breakthrough’) – what goals will require real effort, and/or involve new learning?
- Defining dependencies – what else has to happen to attain goals?
- Accountability – taking responsibility for delivering results, agreeing what happens if not achieved.
- Ethical – is it clear what ethical

means? Is there any potential for conflict between internal requirements and societal/legal requirements?

See our [full report](#) for a deeper discussion of common performance management measures and a framework for adding rigour to the description of performance objectives.

TARGETS VS GOALS

Targets are particular types of performance objectives – typically expressed as hard numbers that have to be reached. The advantage of targets is that they impart clarity about ‘results’ to be achieved. However, in setting targets, there are important things to get right and traps to avoid.

- There are many types of performance achievement that are not best or easily expressed in terms of numbers or as a fixed end-result.
- At the same time, there also many qualitative goals – such as satisfaction or learning achievement – to which numerical goals can be ascribed with effort.
- Targets can be inflexible – they lose relevance when the context changes as well as when they are attained. How good is the process for reviewing and refreshing targets? Just ‘hitting your numbers’ could mean that in reality you are under-performing.
- Being results-oriented without sufficient consideration for other factors can lead to perverse results (e.g. US bank Wells Fargo got into trouble when it was discovered that employees had set up fake customer accounts to meet targets).
- Additionally, it is important to recognise dimensions of performance such as effort and improvement. It can be simplistic and short-termist to focus just on results.

Much depends on who is setting the target, and how.

- Do those who set objectives really know what is relevant and realistic? Are they providing the necessary resources?
- Is the rationale behind targets robustly conceived and well communicated?
- Imposed targets can be de-motivating, yet clarity can be energising. How do targets look to those who must achieve them?
- Have individuals been involved in devising their own targets? Does this mean they are too soft, too hard or well-balanced?

FROM ORGANISATIONAL TO PERSONAL PERFORMANCE

Performance needs to be considered at different levels in an organisation (organisational, business unit, team, individual).

- There should be alignment between objectives and performance standards at different levels in the organisation. While in any complex organisation there can be considerable variation in what people do, effectiveness depends on pulling in the same direction.
- Performance and reward systems often over-focus on individuals. Mostly, performance depends to some degree on team effort.
- People need to feel involved if they are to give of their best. Organisations need to respect bottom-up performance needs as much as they provide direction from above, particularly in knowledge-led organisations where high performance depends on capability at all levels.
- Success generally derives from collectively focusing on achieving a few important things. An excess

of targets, objectives and key performance indicators diffuses effort and direction.

- Organisational objectives should support achieving collective goals – team, business unit, whole organisation. They can be both qualitative and quantitative.
- Personal objectives should have two dimensions – what contributes to organisational success, and what behavioural goals to strive for to improve both delivery of results and capability for the future. Importantly, personal objectives are often relevant to teams through ‘impact on others’.

PERFORMANCE MANAGEMENT AND APPRAISAL

‘Performance management systems’ represent a fraught subject in many organisations. Few employees have a good word to say about performance appraisal in particular. This is mainly a reflection of how common-sense principles are poorly executed.

- ‘Performance management’ is useful when it represents a clearly expressed methodology to ensure the different elements in supporting performance are coherently orchestrated.
- It involves aligning resources, systems and employees to strategic objectives and priorities.
- In high performing cultures, ‘management’ is more about facilitating than directing. The role of leadership at every level is to help others to perform and improve.
- The starting point is ensuring that good and poor performance is recognised, and that both are addressed in a fair and supportive way.
- Performance is best appraised by regular discussions (not annual formalities) that focus on support as much as judgement, and are driven by the appraisee as much as the appraiser.

05

PEOPLE DEVELOPMENT AND COMMERCIAL ACUMEN

Commercial acumen is clearly a highly desirable skill, and it should follow that developing commercial skills is a good thing to do in principle. However, in practice, developing commercial acumen is not always straightforward and requires a mix of formal learning and opportunities to practice new skills on-the-job.

ON-THE-JOB EXPERIENCE

Hands-on experience is the most effective way of developing commercial acumen, but companies may be reluctant to place an inexperienced person in a position of commercial responsibility. Experience can be built up gradually over time, perhaps by allocating someone a small budget, and then over time gradually increasing their responsibility as they build experience. Very few people will ultimately be capable of taking on full profit and loss (P&L) responsibility. However, by using different types of experience, people at all levels in the organisation can take on some commercial ownership. The key is to set clear objectives and development plans and measure that the necessary skills/experience are being developed. See our [full report](#) for a discussion of the various types of experience available, such as managing a cost budget or preparing and delivering a business case or project plan.

TRAINING

Many of the skills, tools and techniques can be learned in a formal training environment, and put into practice on the job. This is particularly true of some of the knowledge-based aspects of commercial awareness, for example interpreting financial statements and ratios and selecting and applying diagnostic models. Online learning is also likely to be effective in delivering some aspects. However, a large part of commercial acumen is about

developing the right sort of mindsets and attitudes, and training is unlikely to be sufficient. It is also extremely important that opportunities are available to apply the learning in real life situations.

BUSINESS SIMULATIONS

Many organisations use off-the-shelf business simulation tools or tools which have a degree of customisation, although sometimes these can be too far removed from real-life business scenarios to be useful. An alternative is to have a commercial expert lead delegates through case studies or scenarios which reflect the types of dilemmas, choices and consequences faced by commercial managers in real-life situations.

OTHER DEVELOPMENT OPTIONS

In recent years, development budgets have been squeezed in many organisations. It is therefore necessary to find other ways of developing commercial skills without resorting to expensive training programmes. Here are some further suggestions:

- Direct explanation by touchline coaching is often the best method of learning. This could come either from a line manager or a mentor in the organisation.
- Spend time with commercial functions such as Sales or Marketing to understand their business challenges. Consider attending some sales calls to find out more about customers.
- Read the business sections of the press, such as *The Financial Times*, *The Times* and *The Telegraph*. There is especially good coverage at weekends. Quality journals such as *The Economist* are also good information sources.

- Build networks, both by interacting with high performing colleagues internally and building an external network.

A PERSONAL LEARNING FRAMEWORK

For executives who wish to develop well-rounded business skills, we would suggest the following six steps to guide your personal learning and development:

1. Knowing your subject

Whatever your role in organisational terms it is important to be expert at something. For example, as an HR practitioner, it is necessary to develop functional mastery in key aspects of HR as a minimum (see the next section).

2. Knowing your business

All professionals need to understand the ways in which their organisations work. Professional excellence linked to deep understanding of the organisation is more likely to achieve outstanding personal and corporate performance. Use the diagnostic questionnaire and other analytical tools in our [full report](#) to assess whether you are sufficiently knowledgeable about key business areas, whether you would feel confident in discussions about them and how your functional expertise might help you improve.

3. Knowing business

Apart from understanding your own business, it is necessary to understand business in general, the business and economic environment and the political and regulatory constraints in which the firm operates. It is also critical to understand the measures by which you might gauge your organisation's performance or measure it against another.

4. Managing or influencing people

Effective business managers recognise

that people in organisations are a valuable resource. Good business managers spend enough time on recruitment to get it right and make sure that decisions are made on facts rather than emotions. They have a framework for managing, assessing, developing and motivating people, and provide accurate and timely feedback and positive encouragement. They do not shy away from firing poor performers when necessary.

5. Constant improvement

Effective managers are never satisfied with the status quo. They need to be constantly analysing situations and looking for opportunities to improve. Adopting a methodology (such as Six Sigma or EFQM) for improving performance can be helpful.

6. A personal skill set

Effective managers need to be able to interview, negotiate, run meetings, make presentations, network and scan as this is an essential element in gaining market intelligence. No business operates in a vacuum and knowing what is going on in the broader context is essential.

06

COMMERCIAL ACUMEN AND HR

As HR has adopted the role of 'Business Partner', HR professionals have had to be tuned in to the needs of the business they support and make sure that the products and services delivered as part of the HR agenda meet genuine business requirements. However, there continues to be a perception that commercial acumen is in short supply within the HR function, and frustration on the part of senior executives that HR is somehow falling short of the full contribution it could make to business success.

All of the concepts discussed throughout this document apply equally to HR as to other functional areas. However, given the changing nature of HR and the role of the function within the organisation, there are particular considerations which are specific to HR.

HOW DOES HR NEED TO DEMONSTRATE COMMERCIAL ACUMEN?

a. Start with the business

HR needs to understand the business in which they operate and be clear about the linkages between HR actions and business outcomes. Too often we see HR functions engage in interesting or 'sexy' projects where the impact on business results does not seem to be given sufficient consideration. This can result in the business being hamstrung by bureaucratic people procedures which do not add value. By following a few steps to make sure that business priorities are kept at the forefront when HR plans are developed, HR professionals can avoid this trap and increase their commercial contribution to the business. See our [full report](#) for an in-depth discussion of these steps, and how to prioritise actions.

b. Functional Mastery

Deep expertise in the tools and techniques of HR, and an understanding of their application to business challenges is fundamental to HR. The function can suffer from a perception that much of what it does is 'common sense' or that anyone can easily understand how to develop human capital, which devalues HR's contribution. In our experience this perception is often not helped by HR professionals themselves, who sometimes display a surprising lack of knowledge and expertise in key aspects of the function.

However, there are areas where HR can apply technical expertise in a commercial way to improve business outcomes. Our view is that commercially-focused HR professionals need a properly-equipped toolkit, which they can relate to the challenges of their business. See our [full report](#) for the components of this toolkit.

c. Strategy

As mentioned above, it is critical for a commercial HR function to understand and develop plans in line with the business strategy. HR needs to play a meaningful role in strategy development, but this is often challenging as the function can lack credibility or expertise. CRF's report [Developing an Effective HR Strategy](#) covers the topic in detail.

d. Identify Core People Competence

A key aspect of understanding what drives the success of an organisation is to define what is the organisation's core people competence. This links closely to the company's value chain and competitive advantage. To what extent are the factors that differentiate the company from its competitors embedded in the qualities, experience and attitude of its people, and in the people processes that underpin the business? If HR can find ways of

identifying and enhancing this, this has the potential to have bottom-line benefits.

e. Metrics and measurement

As HR systems and data quality have improved over recent years and analytical techniques have become more sophisticated, HR has an opportunity to take on an increasingly important role in helping shape business decisions. Areas such as demographic and social change, talent shortages and labour costs are mainstream commercial issues and HR can add value to business decisions here, providing they have the right measures, tools and analytical capabilities in place. See our [full report](#) for a discussion of what this means in practice, including the differences between measurement and evaluation and a review of critical people measures.

f. Cost Management

Every function is under extreme cost pressure today, and this is also true of HR. Commercial HR executives need to be skilled at core financial and budgeting skills such as understanding costs and how initiatives will be funded, developing a business case to support a course of action, defining a budget and reforecasting as circumstances change, increasing efficiency and achieving more with less, and clearly demonstrating tangible returns on investments in what can often be intangible areas such as people development.

g. Environment and future scanning

HR has a key role to play in helping the organisation understand the demographic, social, political, legal and technological challenges it can anticipate in the near and more distant future and in helping develop people plans to address these challenges. This might include activities such as:

- Developing networks with external academics, consultants,

headhunters and specialists in demographic, social, legal and technological changes to help the organisation anticipate trends that might affect its business and workforce.

- o Understanding the demographic profile of the markets where the company currently operates and may wish to in future, to identify trends and potential talent pinch points.

h. Communication

We have already identified the importance for HR of talking in the language of business, and adopting business measures to assess and measure its performance. HR people need to think carefully about how they communicate with other parts of the business, and make sure that they prepare and present data in a business-focused way. For example, putting themselves in the shoes of a colleague from another function may help approach a problem in a way that is more likely to achieve buy-in.

i. Personal and functional credibility

Underpinning all of the above is the need for HR to be taken seriously by the business. HR will be unable to achieve much commercially if it does not have a track record of delivery and if its professionals do not have personal credibility. See our [full report](#) for suggested areas of focus.

DEVELOPING COMMERCIAL ACUMEN FOR HR: THE 'TOP' 9 THINGS HR SHOULD KNOW ABOUT

a. HR professionals should be able to answer, in detail, the question 'Tell me about your business'.

Recruitment, compensation, talent management, employee engagement, learning and development, and succession planning are HR issues in support of the business. They are not the business. The real business is external...customers, investors, suppliers, competitors, products and services, markets, regulators, governments and so forth. HR needs to be able to give a comprehensive

synopsis of the business environment within which the company or organisation operates and the ways in which competitive advantage is achieved. THEN follow up with detailed, practical implications for HR.

b. HR needs to be financially literate.

Understanding and being able to interpret financial statements, financial terminology and financial indicators should become second nature. If so, HR executives will be able to contribute to business conversations and influence business decisions. They will 'add value' as business and not just specialist HR professionals.

c. The HR function also needs to demonstrate that it is numerate.

This means being highly conversant with both business KPIs (Key Performance Indicators) and 'People Metrics' that are used to determine the business results achieved. Understanding and being able to apply the measures and ratios used by business leaders to judge success or failure is key.

d. Interpersonal skills – influencing, presenting, negotiating, leading, facilitating – are as important as the 'hard' skills around finance and numeracy.

Indeed one of the hallmarks of commercial acumen is a firmness of purpose, a tough mindedness to make things happen, to seize the initiative and to take difficult decisions. The head needs to rule the heart by explaining to colleagues and direct reports what they need to hear, not telling them what they want to hear.

e. HR needs to improve its business knowledge.

Apart from finance, there are several important topics – having a good grasp of business strategy, negotiating and selling, being conversant with the techniques of project management, and knowing what process improvement is all about, for example.

f. HR should practice what it preaches about creativity and innovation

– generating, evaluating and then implementing new and better ways of working. This means being at the forefront, having the confidence when it comes to identifying performance improvement opportunities. To be radical, to be bold, brave and

courageous in the quest for better and different ways of doing things and not just in HR.

g. HR people should be able to define good performance for both individuals and the organisation and know the factors that influence this.

h. HR should have excellent antennae

– to be able to pick up developments, shifts, changes in other companies and in other markets. To act as the radar, to learn from other businesses and to import 'good practice' wherever it is to be found. Relevant networking is not just a nice to do: it is essential.

i. HR's methodology should be founded on a consistent operating code,

involving analysis, clear objectives, solid underlying theory, strong cost and project management, thorough evaluation and communication.

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