The ability to identify and analyse value-creating opportunities is what puts a business ahead of its rivals.

Senior lecturer and researcher, Dr Elizabeth Maitland, says the most critical expertise you need in any organisation is strategic reasoning.

But what does someone with sound strategic reasoning skills look like? How does his or her career unfold?

Elizabeth says that typically we think of senior management and the board as the custodians of strategic reasoning.

But, she goes on to say, not every great idea or insight comes out of the board room.

“Frequently, people lower down the ranks are contributing ideas, identifying opportunities and building their strategic reasoning skills,” she says. “They build their career by being exposed to many different decision making contexts, drawing initially on their functional and operational experience.”

At the heart of strategic reasoning is the ability to recognise that the highest value opportunities will not be immediately obvious: they will be difficult to see and complex to understand. To do this, strategic reasoning relies on knowing how to ignore most of the information swirling around you and focusing only on those key information cues that reveal whether an opportunity is viable for your organisation and whether it is the best.

CONTINUED INSIDE 44

Welcome to the October edition of The Leader.

Do you have the Smarts? Exploring Business Acumen

What does a future CEO or company director look like? How do you acquire the business acumen to make it all the way to the top?

In this issue of The Leader, we explore the components of business acumen – or the smarts. What are the characteristics of astute and adaptive leaders? What sort of career path will lead you to executive level decision making? And how can you achieve the wins that will get you noticed along the way?
Get your business model in order

To err is human. To really muck things up you need a computer.

Or a spreadsheet.

Business modelling is the foundation of complete and fully integrated business projects. It sets the framework for important decisions and focuses on the key objectives defined at the outset of any project.

Microsoft Excel is the most widely accepted tool used to visualise and describe essential project information.

And what goes in to Excel at the outset determines the quality of the deliverables at each stage of the project.

There-in lies the inherent risk in business modelling.

James Hall runs consulting firm ClayMatter and teaches in the University’s MBA program. If he’s not building a business model for a large scale project, he’s pulling it apart to find where the flawed assumption lies.

He laments that most Excel business modellers are self-taught.

“The problem is, there are no agreed standards around the world.” He likens this situation to authors trying to write best-sellers without the structure and discipline of grammar.

“Excel is ubiquitous in nature,” he says.

“Unfortunately many businesses are building decisions around high risk spreadsheets.”

“We must be able to clearly and completely define complex problems,” says James. “As soon as you take an idea off the whiteboard, you need to put numbers against it. And you need to test those numbers.”

“For example, if you’re building an airport, you need to define how you will pay for it; when you need to pay people; how and when to draw down on debt; and what the return on investment will be,” explains James.

“Anyone who is making a decision based on the Excel spreadsheet is, by default, taking responsibility for the project,” he says. “So you want the strategy and assumptions to be logical, transparent, and easy to understand.”

“And the process must be auditable,” he stresses.

James’ philosophy for good financial model design is based on the FAST principle. The design must be:

• Flexible
• Appropriate
• Structured, and
• Transparent.

“Leaders must be able to easily understand the source and quality of assumptions used in their models. Then they can readily assess the logic of what the spreadsheet is presenting.”

“Take the London Olympics for example. One small spreadsheet error led to too many tickets allocated for
Here's a good idea

Dr Ken Hudson is a highly sought-after innovation consultant, trainer and strategy facilitator. He calls himself, the Chief Idea Officer.

Armed with a PhD in Organisational Creativity, Ken has authored three books: The Idea Generator; The Idea Accelerator; and Speed Thinking.

By his own admission, Ken is a small ideas man. He's the inventor of ‘Small Wins Innovation’ and says he prefers small ideas to the “big, disruptive, game-changing types of innovation” that bog organisations down.

“Most business managers and leaders realise the need to innovate in order to grow, succeed and stay ahead,” he says. “There’s nothing revolutionary about innovating.”

“But setting big goals can be expensive, risky and intimidating,” he says. “Goals and ideas that are unwieldy too often result in innovation paralysis.”

So he came up with the concept of Small Wins Innovation to get innovation and ideas implementation out of the quagmire.

“My approach to innovation is to make it faster, simpler and more engaging.”

Ken’s philosophy is to deconstruct the magnitude of an idea into smaller, achievable components. And to celebrate the incremental achievements.

Take, for example, the idea of running a marathon. It’s pretty daunting. So you would probably recoil from the idea.

But if you unwrap and get to the nub of the idea – the ‘need’ behind it – it’s just a desire to get fit. That sounds like a good idea. Achievable too – start the process by going for a walk tomorrow. Walk a bit further each day. Enjoy the feeling as fitness starts to kick in and assess your progress.

OK, you might re-assess the need to actually run the marathon. But the gains made by becoming fit are definitely tangible.

Here’s another example of a small idea making a big difference.

For 20 years Qantas has been running an inflight program called Change for Good. Passengers are asked to donate any unused foreign currency into an envelope.

It’s pretty pain-free and requires little effort on the part of the passengers or flight attendants. But that loose change has raised almost $30 million for UNICEF and has a big impact on the communities the charity assists. Everyone has contributed in a small way to a great outcome.

Ken says the great thing about Small Wins Innovation is the simple five-step process.

- **Step 1:** identify the problem and come up with an idea to solve it.
- **Step 2:** test the solution.
- **Step 3:** measure what happens.
- **Step 4:** learn from step 3.
- **Step 5:** share the learning.

“It’s a learnable skill that anyone can do. Most people are pretty good at measurement. The learning and sharing is the hardest part.”

“Every emerging leader I work with thanks me for this tool to approach innovation with,” says Ken.
SWEAT THE SMALL STUFF!…CONTINUED

“It makes innovation more accessible and that means you become better at it.”

“Nobody wants to fail – particularly on a grand scale. When you frame innovation as a small thing, then the risk is small and more people are willing to have a go,” explains Ken.

“I’ve changed my thinking. I used to think big. But I promise you, when you start to break your thinking down, you will see ideas everywhere!”

But what about people’s inherent resistance to change? How can your ideas get traction in an environment that is devoted to the status quo?

Again, Ken’s philosophy is to small-size the change. “When leaders are only given the option of big, bulky and disruptive change, of course they’ll shy away and find reasons not to embrace it.”

“Scale it down and do small stuff” he laughs. “You’ll get some momentum; make some progress; then move to the next step. One small win at a time.”

Ken’s final tip to keep small wins happening:

“Don’t forget to celebrate! Oh, and keep talking up, and promoting, creativity. Fostering creativity should be your number one leadership objective.”

Creative leaders:

• adapt their business models
• invite and embrace innovation
• think out of left field
• are comfortable with ambiguity
• are courageous and visionary
• Invent new business models on different assumptions.

ADAPTED FROM IBM 2010 GLOBAL CEO STUDY

BUSINESS MODELLING FOR PROBLEM-SOLVING

Is your team able to effectively organise data to solve problems and address specific business needs? Are business cases presented on intuition and gut feel rather than sound data that stacks up?

This program will introduce a modelling standard, using Excel that provides the essential tools, techniques, tricks and acumen to make sound decisions and lower organisational risk.

Program Themes

• What is modelling (is it all Excel)?
• Principles of FAST best practice methodology
• Setting Excel up for maximum efficiency
• Use of a problem solving methodology

Benefits

• Transparent models that are more robust and easier to understand and challenge
• Better decision making with powerful scenarios to test different assumptions

FOR MORE INFORMATION, PLEASE VISIT AGSM.EDU.AU/OPEN OR CONTACT ENQUIRIES@AGSM.EDU.AU

James Hall teaches on the AGSM’s Business Modelling for Problem Solving program. He has spent most of his professional career within finance and as an external coach, James uses his emotional intelligence strengths and accreditation in the Life Styles Inventory (LSI) development tool in everything he does.

MAKING BUSINESS DECISIONS…CONTINUED

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“That involves an astute ability to identify risk and manage uncertainty,” says Elizabeth.

Managing uncertainty

“No-one can predict the future,” she says. “You simply cannot know what is going to happen. But taking the elements of uncertainty and reducing them down to manageable risk is critical.”

Elizabeth acknowledges there will always be genuine uncertainty. She says the art of strategy lies in “design that is flexible enough to adapt, but still remains committed to how a product is designed and positioned.”

There is a line to be drawn though. “If you’re just worrying and not adapting your reasoning, then that’s paralysis,” Elizabeth warns. “The skill is in using your judgement. Drawing on the knowledge and rules you’ve learned about what sort of things can happen.”

“If you’ve built your expertise from varied experience, then you’ll be looking for certain things within your landscape. You get to a point where you’re comfortable and have a fair idea of what might happen. And how you’ll respond if it does” she explains.

Informed judgement

Elizabeth says the reasoning process should go along the lines of, “this is what I suspect. This is what could happen. This is what is highly unlikely to happen. This is the best way to organise our strategy.”

“There is no right answer,” she says. “It has to be an informed judgement based on expertise built through informal, experiential learning and formal education.”

Elizabeth’s advice to middle managers is to grasp learning opportunities that allow you to exercise strategic judgement. “You won’t just ‘become’ a senior exec or board member. That career must be built through diverse exposure to strategy.”

And small business operators should be gleaning all that they can about their competitors’ operations. “Your strategic reasoning should not just focus on what you’re doing. Look at who you are up against and what they might do,” she suggests.

The condition of human cognition

Human cognition is plagued with errors, but it is also capable of exercising sound judgment in complex and ‘noisy’ environments.

Elizabeth’s research observes that as much as we hear about our errors of bias and short term thinking, this underplays the necessity of relying on judgement in strategy. Even when a decision is made to pursue an opportunity, it will be on the basis of judgement – not a definitive ‘answer’ from a set of models proving one opportunity is better than all others.

She advises to “be aware of your bias and potential framing errors. But concentrate on the expertise and strengths you have built, rather than the flaws.”

She says much of the academic discussion of the last 10 years has been about decision makers’ weaknesses and what they shouldn’t do.

“The research I’m involved in is shifting the focus to the expertise in the organisation rather than the flaws. We’re looking at how we build careers for people through on-the-job training, formal education and informal observation to enable the acquisition of strategic reasoning skills,” she explains.

“We don’t definitively know what ‘strong strategic expertise’ looks like, but we’re starting to tease it out in research.”

It’s a very good question. What does knowledge look like?
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