



Strategy made personal



## **Navigating Strategy Execution:**

The Case for Custom Business Simulations

By Rommin Adl



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## **Executive Summary**

### **The secret to successful strategy execution?**

Navigating from strategy to execution presents tremendous barriers and risks. To successfully implement strategic priorities, today's leading organizations are adopting experiential learning methods and are increasingly discovering the value of business simulations.

Business simulations have evolved into one of the most, if not the most, effective methods for accelerating strategic transformation initiatives, improving business acumen, building new leadership skills and enabling sales transformations. Companies that deploy simulations achieve quantifiable results; however, the ultimate return on investment from a business simulation is not assured. Experience has shown that customized simulations, tailored to the company's business and strategic priorities, yield a greater impact than generic versions.

Companies that deploy customized simulations enable the practice of execution in a risk-free environment, effectively aligning the organization to the strategy, creating the appropriate mindset, and building the essential skills and capabilities required for success. The end results are quantifiable and measurable, illustrated in revenue growth, employee engagement, customer satisfaction and, ultimately, share price appreciation. As a result, research shows that corporations are projected to significantly increase their future investments in customized simulation based learning initiatives.

This white paper explores the benefits of business simulations in a corporate environment, provides a framework for developing effective simulations, and discusses why customized simulations yield greater business impact. Discover how leading companies like Aetna, Liberty Mutual, Sony and Vestas have successfully leveraged customized business simulations to accelerate strategy execution.

## Beyond Traditional Approaches: The Value of Experiential Learning

Dating back to the 16th century, the lecture is one of the oldest forms of education. However, the effectiveness of this traditional teaching method is being challenged by a powerful approach: experiential learning.

“Learning is experience. Everything else is just information.”

— Albert Einstein

From its beginnings in the 1950s, experiential learning has evolved from an exploratory technique to common practice in a variety of settings, whether it's students in the classroom, employees in an organization, or even golfers on a golf course. Through the interactive, discovery-based method, people are more engaged in the learning process and are empowered to assess situations and react appropriately. In his book, *See and Feel the Inside, Move the Outside*, PGA Master Professional Michael Hebron says that there's little an expert can do by way of teaching students the particular motions of the swing. Instead, learning has to be experiential and feedback-based. The same, he says, goes for any and all kinds of learning. “It's about learning, not about golf.”<sup>1</sup>

A recent National Public Radio broadcast presented compelling evidence that demonstrates how experiential learning can significantly improve understanding. Testing tens of thousands of students worldwide, traditional lecture-based physics courses produced limited change in most students' comprehension of fundamental physics concepts. In fact, these classes were only effective for about 10 percent of students, and evidence suggests that these students would learn even without the instructor. The message is clear: listening to someone talk is not an effective way to learn any subject.<sup>2</sup>

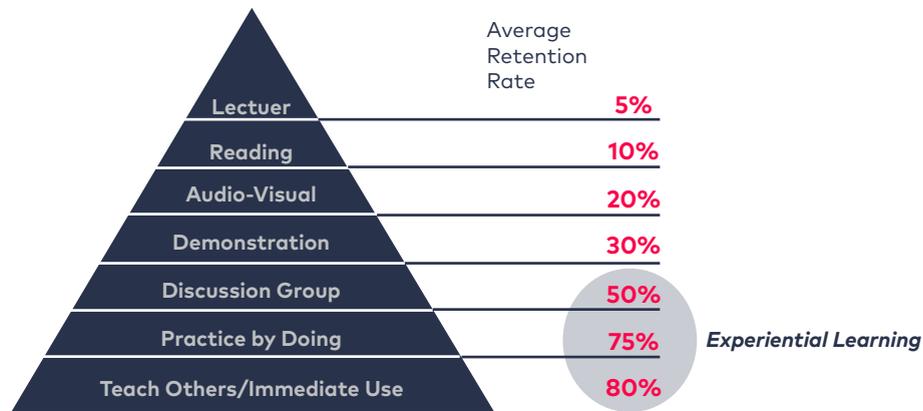
However, introduce active, engaging teaching techniques and student understanding is proven to increase tremendously. Harvard physics professor Eric Mazur changed his method to include simulations, small group discussions, peer instruction and large group debriefs. “What we found over now close to 20 years of using this approach is that the learning gains at the end of the semester nearly triple,” he says.<sup>3</sup>

Research from National Training Laboratories underscores the importance of this learning model. Findings show that lectures drive only five percent retention, while “practice by doing” accounts for 80 to 90 percent retention (See Figure 1).<sup>4</sup>

The case for experiential learning is compelling and the evidence is not being ignored. Recognizing the value of this teaching technique, even Harvard Business School is introducing its biggest curriculum change in nearly 90 years, shifting from case study analysis to practice-oriented activities.<sup>5</sup>

However, the value of experiential learning is not limited to academic settings. Today, more and more leading organizations are adopting cutting-edge experiential learning methodologies to effectively implement critical strategic priorities and develop the skills and capabilities needed for strategy execution.

**Figure 1: Retention Rates of Various Learning Models**



(Source: National Training Laboratories)

## **The Business Benefits of Experiential Learning: Introducing the Business Simulation**

Unlike pilots performing a cockpit simulation, athletes competing in the Olympics, or a Special Forces team simulating a combat mission in a reconstructed compound, corporations historically tend to shy away from creating meaningful opportunities for practice. Dan Parisi, Executive Vice President at BTS, champions the move toward experiential learning. He believes that society's traditional teaching methods are no longer effective in evoking changes in behavior, especially in the workplace. "Corporations need to think differently around how they prepare people, and we're here to convince them that experiential learning will deliver greater returns," he says.

To communicate new strategies and motivate performance, executives typically rely on PowerPoint presentations, offsite events and town hall meetings. In these methods, people listen to the executives and then return to their busy jobs—with little time to focus on what management has just communicated. "That type of tell-them-what-to-do messaging often makes leaders feel like they have done their part in communicating the strategy, but the approach doesn't have the deep visceral impact needed to motivate the execution of the strategy," says Rommin Adl, Executive Vice President at BTS. As a result, people in an organization often go back to their jobs not understanding or having the confidence to execute the strategy. It ends up being business as usual.

Leading Corporate Turnaround by Stuart Slatter, David Lovett and Laura Barlow echoes, strategy typically fails because 33 percent of management behaviors are not supportive of change and 39 percent of employees are resistant to change. The result: a strategy that sounded good in principle starts to move in 1,001 different directions.

Corporations can succeed in aligning employees to strategic priorities and developing the essential skills and capabilities for execution by engaging them in a dynamic learning environment. Business simulations—experiential-based learning processes and real-time feedback—boast the most frequent success rates. As James Bolt's book, *The Future of Executive Development*, stated, "Just like a pilot in a flight simulator, an executive can fail, go bankrupt, and live to fly another day with no lasting consequences to people and resources."<sup>6</sup>

"Corporations need to think differently around how they prepare people."

### ***A Historical Perspective of Business Simulations***

In 1955, RAND Corporation developed a game called Monopologs. Focused on U.S. Air Force logistics, it required players to act as inventory managers by simulating the Air Force supply system.

In the simulated experience, players managed the inventory of a widget (a small, nameless mechanical device) over one military depot and five Air Force bases. Aware of the costs and lead times of their actions, they initiated procurement, planned repair schedules and set distribution policies over a simulated period of 31 months. The results of their actions were reflected by sales generated, revenue captured and profits reported.

The Air Force determined that simulations were effective in giving officers a broader perspective on running a complex process, consolidating several years of decision management into a few hours, and giving individual officers time to reflect on their decisions and improve in the future. With these strengths, Monopologs became one of the most important contributing factors in the early development of business simulations for corporations.

By 1957, the American Management Association (AMA) had hired RAND to develop simulations that represented the role of hypothetical executive teams and enabled participants to make a number of business decisions, ranging from budgetary to marketing. The resulting simulation, called "The Top Management Decision Simulation," was developed with the idea of creating a simulated environment for trainees to test their abilities and skills. The AMA presented the simulation to 20 corporate presidents in May 1957. By March 1958, 350 corporate executives, as well as 50 scientists and business school professors, had gone through the simulation experience.

Business simulations encompass a variety of models that range from multi-stage algorithms to decision-tree structures that take learners down paths with different end results. Through a simulated experience, participants immerse themselves in situations in which they are forced to perform, obtain feedback and adjust their behavior. Leveraging this comprehensive methodology better enables participants to replicate new behaviors and skills in the real-world business environment. However, experience has shown that customized simulations yield a significantly greater return on investment than generic versions.

### **In a Corporate Environment: Customized Versus Generic Simulations**

Simulations have evolved into one of the most, if not the most, effective methods enabling participants to rapidly and effectively adopt a wide range of practices, from supporting broad strategic transformation initiatives to improving business acumen and decision-making skills.

However, there is considerable confusion over the application of customized and off-the-shelf (or generic) business simulations. Well-designed custom simulations are powerful tools for immersing learners in a company's business and providing a risk-free environment in which to practice strategy execution. These experiences produce and deliver new behaviors and tangible action plans that are tied to real-world outcomes. End results include behavior change, on the job action, and quantifiable business impact.

Generic simulations build foundational skills in a more fun and engaging way than traditional lectures and case-based approaches. Common in academic settings and management training programs, these standard simulations provide exceptional skill and capability development.

### **The Value of Customized Simulations**

According to BTS CEO and Founder Henrik Ekelund, the value of customized simulations in driving a company's strategic priorities is that they improve employee engagement, build critical skill development and encourage on-the-

job application. Participants, he says, feel energized and aligned to the intended strategy; they understand their new responsibilities because they have experienced tangible actions that drive results. Joel Sigrist, Senior Vice President for BTS Western Europe, adds, "Customization done well allows employees to become more open to changing their ways because the experience is relevant to their current role."

Customized business simulations can be applied in corporate settings to:

- Enable Strategy Transformation
- Develop business and financial decision making
- Drive cultural change
- Implement key performance indicators
- Integrate newly merged companies
- Build operational excellence

Aetna Inc. Chairman, CEO and President Mark Bertolini agrees. "We partnered with BTS to rebuild the program that models our business, so we can practice making decisions in a new and different marketplace. Their program helps us improve the execution of our new strategy and to achieve the results our shareholders and customers expect."

The return on investment from customized business simulations translates to an aligned workforce with the skills and capabilities needed to execute the company's strategy. As a consequence, according to a study conducted by Corporate Executive Board, employees committed to the organization give 57 percent more effort. The business impact is tangible.

## The Risks of Generic Business Simulations

Generic simulations can be effective in building foundational skills and capabilities. However, while less costly to customize and deliver, Ekelund cautions, “In generic simulations, participants often treat the experience like it’s a big game because it is not always aligned to their current position. They will have fun with it, but once the simulation has ended, the application to the job will lack clarity. The results will not be as impactful.”

For high-stake strategic transformations, simulations with a low level of customization are dangerous because they are not constructed from the point of view of the organization’s key stakeholders and do not reflect the company’s dynamics. Sigrist says, “Without customization, you increase the risk of exposing learners to the wrong assumptions and tradeoffs for their business. When participants go back to their jobs and apply these assumptions and trade-offs, the consequences can be severe.”



## Customized Simulations Maximize Business Impact

To enable a strategic transformation, a customized simulation must be relevant to the strategy and represent real-world business challenges. The functionality of a simulation must be rich enough so participants gain exposure to the big picture, but still operate at a level that reflects what they do on a day-to-day basis.

"An effective custom simulation captures the big picture and critical business interdependencies with enough granularities that people can make real-world business decisions," explains Adl.

Ekelund recommends a six-step process to build a customized solution that, if done correctly, will lead to an in-depth learning experience and strong business impact.

The six steps include:

- 1. Identify the client's business objectives**

Before developing a simulation, it is essential to gain a clear understanding of the company's business, strategic priorities and key performance objectives. Simulation developers must first meet with key people in the various parts of the business who can offer an in-depth understanding of their challenges and strategic priorities.

- 2. Learn the strategies to achieve the objectives**

Once the business objectives are identified, simulation developers must next understand the processes and strategies in place to achieve the company's desired objectives.

- 3. Identify the gaps in execution**

After the objectives and strategies are determined, simulation developers must conduct a needs analysis to determine gaps in employee execution that may stall the success of the desired strategic change.

"Executives are increasingly looking at simulations not as an optional expense, but as a mission-critical investment."

- 4. Determine the knowledge and behavioral skills required to drive change**  
Once learnings and objectives are in place, the next step is to uncover and pinpoint specific employee capabilities and knowledge components that will be instrumental in driving change throughout the organization.
- 5. Customize the simulation to the business model and strategic objectives**  
An effective customized simulation models the business, but the optimal level of realism is based on the desired outcomes. The simulation design typically includes the company's business, key functional areas, market dynamic, customer information, etc. Customer parameters include value drivers, preferences, retention rates and brand loyalty.
- 6. Reflect on the results**  
After applying a customized simulation, it is important to bring all the participants together to discuss and tie outcomes back to the real world. This reflection is critical for participants to identify actions to implement back on the job.

Follow-on surveys determine the outcomes attributable to the simulation experience and the impact on the overall business results. A BTS program at Sony led to significant business impact including, increased sales revenue, effective new product launches, improved margins on products sold and increased retailer loyalty. A Sony employee reflected, "I am working with my retailers in an entirely different way that has led to improved sales results and increased margins for Sony."

Says Adl, "On average, after more than 25 years of experience in the industry, customized business simulations typically generate a 10 to 12 times return on investment." Parisi predicts that companies will increase their investments in customized simulations. "Executives are increasingly looking at simulations not as an optional expense, but as a mission-critical investment."

**Case in Point:**

***Humana Leverages Business Simulations to Build a Better Healthcare System***

"We all know what's going on with the transformation of the health care system- or, rather, the lack of transformation," said Debra Gmelin, corporate director of Humana's Leadership Institute. "Humana wanted to be part of the solution in terms of bringing leaders together in a community to understand what's possible when we're collaborating and working together for the well-being of that community. People's perspectives can change rapidly when you use experiential learning."

Humana, a Fortune 100 health care company serving 17 million members, is acutely aware of the rising cost pressures of the U.S. health care system and increasing challenges for American families and companies. Humana partnered with BTS to develop The Health Economy Simulator (HES), designed to accelerate health care innovations in the market, region by region.

Humana customers, hospital administrators, physicians and other local health economy stakeholders are immersed in an experiential learning environment designed as friendly competitions with five teams. Leaders evaluate and discuss different strategies to improve the health of their populations and local health economies. The participants work together to make dozens of choices for their region including setting health care taxes and pricing, and investing in various programs and policies for hospitals, doctors and patients.

At the conclusion of the session, each team creates a three-year plan, that if executed by all parties, will cut costs, increase the quality of care, improve the population's wellness and wellbeing and enhance the economic growth of the region.

"Americans wanted and expect the best health care, but they wanted it yesterday and they don't want to pay for it. In simulations like the HES, we see that everyone has to give a little. I've seen nothing else like it.

I love this program," says Dr. Richard Carmona, former U.S. Surgeon General.

To read the article in CLO magazine, [click here](#).

## Customized Business Simulations Predicted to Play a Crucial Role

Effective strategic execution is a major differentiator. The 2012 annual PWC CEO survey revealed that in the past year, 25 percent of CEOs had to cancel or delay a strategic initiative because of talent constraints.<sup>7</sup> It is increasingly apparent that organizations need to better align their workforce to the strategy and develop the essential capabilities for execution. As a result, this year, for the majority of CEOs, developing leadership and growing the talent pipeline is a personal priority.<sup>8</sup>

Gartner, Inc., the world's leading information technology research and advisory company, predicts that in 2012, "High-performing enterprises will shift 50 percent development spending from training to experiential learning programs to boost people's effectiveness."<sup>9</sup>

Customized business simulations are increasingly identified as a business asset, successfully building new leadership, improving business acumen, developing critical capabilities, and accelerating strategic transformation initiatives. Today, the technology needed to create and support simulations is readily available, cost-effective, user-friendly and continuously improving. Moreover, pressured by high-stakes and expanding organizational responsibilities, top-executives are growing increasingly receptive to new approaches to strategy implementation. Ted Kelly, CEO Liberty Mutual, admitted after a BTS engagement, "I was originally against doing a customized business simulation. I am a big fan of case study presentations. I was wrong. It was the best training we've ever done."

A well-designed custom simulation proves cost-effective and yields positive, long-term results for companies in various types of industries. Ekelund expects a steady move towards customized business simulations and an increasing transition away from generic simulations. This trend is happening already. "Companies are saying, 'Customized simulations are not just a learning experience; they're a strategy alignment and execution experience.' The difference is in the results," notes Ekelund.

***Case in Point:***

***Vestas Engages Key Leaders in a Strategic Transformation***

Vestas, a Denmark-based provider of wind turbines, had historically been a product-focused organization operating in the alternative energy industry for more than 30 years when the company started to notice a shift in the market. In this dynamic environment, Vestas determined that it needed to become more customer focused. To achieve this, Vestas needed to effectively encourage the Research & Development department to recast its focus from working on engineering challenges to determining how customers use the company's products.

Vestas invested in a customized business simulation to build critical business acumen, stakeholder engagement and decision-making skills for the company's leaders. "In a tough financial environment, we had to be confident that any learning engagement would trigger behavior change and lead to measurable improvements in business performance," says Vestas R&D VP Geri Guyon. "That is why we chose BTS as our training partner of choice."

BTS partnered with Vestas to develop a customized leadership curriculum that provided participants with a holistic view of their business and created an understanding of their impact on the entire value chain and bottom-line results. "This is more than a learning program," says Thomas Havholme, CFO of Vestas Technology R&D. "It is a tool in our arsenal that helps our leaders build the knowledge and skills that enable us to deliver on predictability and time to market, and also to strengthen our position as the technology leader in the wind energy market."

The success of the engagement spurred immediate results throughout Vestas. Within the first six months, the company has made substantial improvements in its Customer Loyalty Index and customer assessments are increasingly positive.

These results have inspired further application of the simulation to a wider audience simulation. To date, over 400 employees have participated in the process.

To read the full Vestas case study, [click here](#).

## In Conclusion

Navigating from strategy to successful execution presents tremendous barriers and risks. The stakes are high. Often leaders have only one chance to get it right and the repercussions of poor execution can be significant. As management continues to recognize their true power, customized business simulations will come to play a crucial role in every successful corporate transformation. And the business benefits will be truly exponential.

## Endnotes

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## About BTS

### **BTS: The Global Leader in Strategy Alignment and Execution**

BTS is a global professional services firm headquartered in Stockholm, Sweden, with some 450 professionals in 32 offices located on six continents. We focus on the people side of strategy, working with leaders at all levels to help them make better decisions, convert those decisions to actions and deliver results. At our core, we believe people learn best by doing. For 30 years, we've been designing fun, powerful experiences™ that have profound and lasting impact on people and their careers. We inspire new ways of thinking, build critical capabilities and unleash business success.

It's strategy made personal.

We serve a wide range of strategy execution and talent development needs. Our services span the employee lifecycle from assessment centers for selection and development to strategy alignment and execution initiatives, and from business acumen, leadership and sales training programs to on-the-job business simulations and application tools. We partner with nearly 450 organizations, including over 30 of the world's 100 largest global corporations. Our major clients are some of the most respected names in business: AT&T, Chevron, Coca-Cola, Ericsson, Google, GSK, HP, HSBC, Salesforce.com, Telstra, and Unilever.

BTS is a public company listed on the Nasdaq OMX Stockholm exchange and trades under the symbol BTS B.

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