

EDITED BY **JAMES F. BOLT**

EXECUTIVE DEVELOPMENT ASSOCIATES

The

FUTURE

of

EXECUTIVE

DEVELOPMENT

Jim Bolt is Chairman and founder of Executive Development Associates, Inc. (EDA), a leading consulting firm specializing in the strategic use of executive development. EDA develops custom-designed executive development strategies, systems and programs that ensure clients have the top talent needed to achieve their strategic objectives and win in the marketplace.



EDA's clients have included half of the Fortune 100 companies and many other leading organizations around the world.

Jim was recently selected by the *Financial Times* as one of the top experts in executive/leadership development. Linkage, Inc., named him one of the top 50 executive coaches in leadership development in the world. Jim is a columnist on executive development for *Fast Company* magazine's Learning resource center online.

List of Contributors:

The Future of Executive Development

Jonas R. Ackerman

Eileen J. Antonucci, Ph.D.

Yury Boshyk, Ph.D.

Charles Brassard

Jay A. Conger, Ph.D.

George Consolver

Guy de Herde

Michael Dulworth

Geert Egger, Ph.D.

Henrik Ekelund

Joseph A. Forcillo

Robert M. Fulmer, Ph.D.

Fariborz Ghadar, Ph.D.

Ted Hoff

Andrew McK. Jefferson, J.D.

Richard O. Kimball, Ph.D.

Mary Jane Knudson, Ed.D.

John J. Koriath, Ph.D.

Richard J. Leider

Nancy Lewis

Jo-Anne Miller

Michael McGrath, Ph.D.

Sandy Ogg

Daniel A. Parisi

John Sullivan, Ph.D.

Calhoun W. Wick

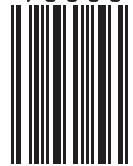
John H. Zenger

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Using Business Simulations for Executive Development

Jonas R. Akerman, Henrik Ekelund, and Daniel A. Parisi, BTS Group

Fasten your seat belt . . .

You are at the controls of a large commercial airliner filled with passengers. You are at cruising altitude and navigating around the perimeter of a large storm system. You have done this before so you're relaxed and confidently in control of multiple flight variables. Suddenly, the plane hits violent turbulence, much worse than you have ever experienced before. Air traffic control crackles over your headset and warns that you have just hit the wake of another major airliner, which accidentally crossed your flight lane about one mile in front of you. The plane pitches from side to side. You quickly diagnose that the wake left by the other jet has damaged your left wing flaps. Before you can react, your right wing dips past 45 degrees as passengers begin screaming. Your heart beats faster; your hands tighten on the controls. You struggle to remain calm but air traffic control can hear the panic in your voice. Your co-pilot informs you that the tail flap was also severely damaged and the plane begins dipping steeply forward. You are covered in sweat; you realize you're headed into a steep longitudinal tailspin with 250 people on board.

Before the rest of this scenario unfolds, you reach for the large red button that reads “Stop Simulator.” With your throat dry, you emerge from the darkened simulated cockpit and your eyes struggle to adjust to the bright lights of the pilot training classroom.

Your instructor greets you with a smile, and says, “Hey, that was a big surprise, huh? Let’s sit down, debrief the experience and focus on what to do if this happens during a real flight.”

Humbled, you listen carefully and eagerly look forward to putting into practice what you are about to learn.

Free tickets anyone?

The aerospace industry has been using simulations with great success for several decades. However, imagine for a moment a very different world, a world where pilots never stepped into a flight simulator—a world in which pilot training consisted solely of lectures, written exams, group dialogue, even rigorous oral exams. Imagine a pilot who passed this curriculum was allowed to fly a plane with hundreds of people on board. Any volunteers for boarding this newly “trained” pilot’s inaugural flight? Would you board this plane even if the tickets were free? OK, how about quadruple frequent flier miles?

Of course, your response would be, “Are you crazy? You can’t learn how to fly a plane like that! Flying a plane is way too complicated to learn by lecture, and lives are at stake, not to mention millions of dollars of equipment!”

Why should pilots have all the fun?

So we can all agree that students of flight need many hours of simulation experience before flying a plane because the task is complex and the stakes are high in terms of human lives and expensive equipment.

Can you think of another group of professionals who deal with highly complex tasks, who affect the lives of thousands of people, and who are responsible for millions of dollars worth of equipment? While people don't usually live or die by a business leader's decisions, the impact of poor business decisions can have significant and dramatic consequences for individuals (employees, customers, and shareholders) and communities.

Pilots in training have benefited from flight simulation for several reasons:

- Simulation provides a safe environment to practice, to test what-ifs and to make mistakes (mistakes that don't end in disaster).
- The lessons are indelible because the training is dynamic and emotionally engaging.
- The context, content, and process (the holy trinity of training design) is relevant, realistic, and directly applicable to the job.
- Simulation shortens training cycles (a few days of simulation can replace weeks of lecture).

Obviously, these benefits are 1:1 transferable to a business executive's training environment. Unfortunately, for the last several decades, while pilots were busily

climbing steep and exciting learning curves using simulations, business executives were investing months of their careers in training filled with lecture and dialogue, all of which has left them ill-prepared for the challenges of running an actual business.

Are business simulations really for executives?

Aren't simulations mostly for middle managers? After all—the executives should already know this stuff and they don't have time for games!

Companies like Hewlett-Packard, Coca-Cola, Texas Instruments, and Sony have shown that business simulations can be very effective for executives on a large scale. We will show why, when, and how. It's about customizing to the real business, the goals, and the right level of complexity, and wrapping a powerful learning and application process around the simulation.

In this chapter, we summarize our experience (in total for all three authors 40 years of work in the field) with business simulations for executives. We start by defining a business simulation, describe why and where they are used for executive development. We describe the major advantages and the major risks of using business simulations for executives; and we describe how to leverage the advantages and how to handle the risks. Two of the cornerstones of success when using business simulations—customization and the “do-reflect-apply” process—are covered in depth. Finally, we discuss classroom versus e-learning and how business simulations can be used to develop business acumen and leadership capabilities at the same time.

Defining a Business Simulation

The concept of simulation training is spreading rapidly in the business world. As with any young and rapidly growing field, definitions vary. It has several main practice areas:

- *Process flow simulations*: Allow the executive to understand a specific business process such as the rate of throughput on a manufacturing line.
- *Interpersonal simulations*: Allow the manager to practice different high-stakes interpersonal scenarios with others, for example, role play with colleagues on how to deal with a critical customer escalation.
- *Financial modeling simulations*: Allow the executive to “what-if” the impact of an interest rate change on a discounted cash flow analysis or other type of financial equation.
- *Business acumen simulations*: Allow the executive to formulate strategy, allocate scarce resources, develop products and services, attempt to meet customer requirements, manage financial metrics, contend with exogenous disruptions, and compete against other managers in a shifting competitive landscape.

To help differentiate among these four types, let’s revisit the flight simulation analogy. In the flight simulation context, the first three types of simulation would be subset activities of the fourth. For example, a process flow simulation could examine the rate at which passengers exit and enter the plane. The interpersonal simulation could examine how to deal with a difficult passenger on a plane. The financial modeling simulation would be analogous to analyzing different combinations of lift and drag on the

speed of the plane. The business acumen simulation would be the most comprehensive of the four—actually flying the plane.

While we create and deliver simulations that include all four types, the rest of this chapter deals exclusively with the comprehensive business acumen simulation.

Why Use Business Simulations for Executive Training?

Generally speaking, companies have three reasons to use business simulations to train executives.

- Simulations increase executive business acumen and financial literacy.
- Simulations build competency, alignment, and commitment around complex corporate strategies, business models and initiatives.
- Simulations are a powerful, engaging, dynamic, and effective way to reach executive audiences.

Business Acumen and Financial Literacy

As we see it, business acumen can be defined as follows:

- A thorough understanding of what drives profitability
- A market-focused approach to the business
- An overall big-picture understanding of the business and its interrelationships, enabling a person to make better business decisions

Business acumen is the ability of an executive to see through all the clutter of facts and figures from inside and outside the organization—with an intuitive, backbone understanding of what will drive growth and profit—setting the business priorities in the areas of most value creation and making the right business decision. This is how Ram Charan describes business acumen in his 2001 book *What the CEO Wants You to Know*.

Ours is a fairly broad description of business acumen. Historically, many C-level executives would have been satisfied with a much narrower definition of business acumen. For example, a couple of decades ago, CEOs would have been content if more executives simply understood the CFO's corporate financial metrics.

In the late '80s and early '90s, many U.S. corporations discovered the criticality of managing for shareholder value and introduced corporate financial metrics such as ROA (Return on Assets), ROCE (Return on Capital Employed), FCF (Free Cash Flow), and one that warms the cockles of every CFO's heart, EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization).

As these metrics are correlated to stock price movement, analysts and shareholders applauded CEOs and CFOs who adopted these measurements. The downside was that very few executives and managers actually knew what their CFOs were talking about when they began force-feeding them financial alphabet soup. As one CFO told us in the mid-'90s, "It doesn't matter how many PowerPoint slides I show on RONABIT [Return on Net Assets Before Interest and Taxes] our management team looks at me like deer staring into the headlights of an oncoming truck." What this CFO didn't

realize was that his lecture-based attempts at teaching financial literacy were just as ineffective as teaching a pilot to fly via lectures on flight dynamics.

By the mid-'90s, we noticed that business simulations were being used to “democratize” the CEO’s and CFO’s financial language so the rest of the top team could use it. No amount of PowerPoint slides, “sage on the stage,” or professorial lectures can bring complex financial statements and metrics to life like a computerized business simulation experience where executives are running a company in competition against other executives.

The Bigger Picture

Around this time, we realized that the goal of business simulations was not to teach finance to executives in its myriad of details, it was to connect corporate financial goals and financial statements to the strategy and operations of the business. The goal was to use simulations to create an almost intuitive understanding of how business decisions and marketplace changes impact corporate performance. We also observed that simulations were becoming more comprehensive and expanding to include non-financial metrics such as employee satisfaction and customer satisfaction. Like a pilot, a business executive doesn’t fly on one diagnostic tool alone, and must be able to see the big picture at all times.

For example, a business simulation allows managers to experiment with all the different functional and business decisions that can impact ROA, employee satisfaction, and customer satisfaction. What happens to ROA if I increase plant investments? Is there

a correlation between employee satisfaction and customer satisfaction? What about between price changes, customer satisfaction, and earnings? Will the investment I am about to make be valued by the customer and differentiate me from my competition? How do income statement and balance sheet changes impact stock price?

- In short, the dynamic business simulation allows executives to experiment, and it reveals cause and effect immediately and dramatically.
- The simulation experience gives direct insight into complex functional and business unit interrelationships—it allows executives to take a broader perspective on the challenge of enterprise-level value creation.
- The simulation experience also provides a gut-level understanding of market orientation issues: dynamics at work between a company, its customers, and the competition.

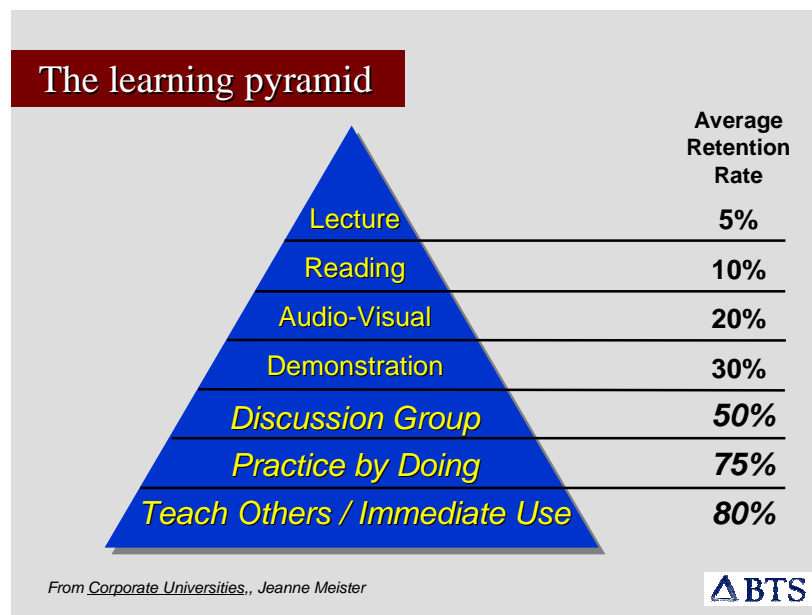
A well-facilitated simulation also engenders rich dialogue. The simulation experience gives managers confidence to ask difficult and nuanced questions about business acumen. Often, CEOs or other senior executives close a business simulation experience with a Q&A session. Senior executives are surprised by the amount of learning that happens in a short period of time, and by the quality of questions and dialogue that follow a simulation experience. One month after a business simulation experience, a CFO at a well-known high-tech company told us, “The simulations work because these managers are finally understanding my language. When I say DSOs or

Asset Turnover, they don't flinch anymore. And they stopped confusing the Balance Sheet with the Income Statement!"

And, of course, the simulation is a safe environment to learn about business. 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.

What does last, however, is the learning. Just as with our junior pilot in the introduction, lessons learned experientially in a business simulation are retained much longer than those obtained from other learning methods like reading, video, and lecture.

The pyramid in Figure 2.1 illustrates the effectiveness of simulation (or practice by doing) versus other forms of learning.



Corporate Strategies, Business Models, and Initiatives

Two things keep a CEO awake at night:

- Formulating a strategy and defining key corporate initiatives
- Hoping that the executive and management team quickly understand, align, and commit to the strategy and key corporate initiatives

While we don't consult on the first point, worrying about the second one also keeps us awake. We had conversations recently with a partner at one of the big, smart strategy consulting firms. What he said puts these points in stark relief: "You know, the era of strategy consultants devising a strategy, writing up the strategy, delivering the strategy to the CEO's team, collecting large fees, and then leaving with the strategy in our heads *is over*. Our clients are now demanding that we help *build competency around the strategy*, otherwise we won't be invited to the dance anymore." Surprisingly, even the traditional strategy consulting firms are starting to take seriously the notion that strategy is lifeless and static unless executives and managers understand, align, and commit to the strategy.

All of what we say on strategy applies to any key corporate initiative—a significant change in one or several key business processes, for example. What all these corporate initiatives have in common is that success requires a significant change in behavior by a significant number of people.

And the new systems, new equipment, new processes, new workforce training are not enough to create changed behavior. The power of a simulation is that it provides context, content, and practice of the new behavior "before"; it stimulates the participants to find out by themselves the answer to Why? What? and How?

Creating Buy-In

In Michael Schrage's book *Serious Play*, he makes an interesting observation about what he terms one of the greatest fallacies in corporate America. He states that the typical executive has almost blind faith in the following equation:

Change in Information = Change in Behavior

Schrage says this is a trap that many executives fall into. Changes in information rarely if ever convert themselves into changes in behavior, even though many executives think that if they just craft a better presentation or if they can just capture the strategy in a well-articulated summary, they can move the management ranks forward. Unfortunately, this is not the case. Schrage claims that typical adults need to "persuade themselves" through their own experience. Therefore, he updates the ubiquitous, flawed equation with the adjustment below:

Change in Information + Simulation = Change in Behavior

This is a simple and concise way to think not only about the importance of business simulations but also about the work of many of the experiential learning practitioners you will meet in the other chapters in this book.

Customization

To customize a business simulation or not to customize, that is the question.

Hyper-Engagement

Beware the power of simulations to create hyper-engagement. Participants are *going* to engage with the situation you present—be sure to engage them on the right thing!

In the mid-'80s, we began experimenting with business simulations as a way to help companies implement strategy and change initiatives. In the beginning, we were agnostic regarding generic versus customized simulations.

Even with a generic simulation, we noticed that you can create high engagement in the learner. However, there is a significant risk associated with using a generic simulation at executive levels, and therefore we recommend against it. While high levels of learner engagement are a great benefit of simulations, a generic simulation can create engagement around the *wrong things*. With generic simulations, you run the risk of managers and executives treating the experience like a big game, where the sole focus is on winning and losing. Yes, competition creates excitement and engagement, but is that what you want your executives focused on for two to four days away from their line jobs? Many of your executives are bound to walk away saying, “Yeah, that was fun, but I’m

not sure it was the best use of our time. I mean, after all, our business models are different and we don't sell widgets, we sell high-tech systems. And let's not kid ourselves, running our real business isn't about winning *a game*, it's about winning in the marketplace!"

The level of engagement created by a simulation must be a means to an end, not an end in itself. Furthermore, there must be a process to clarify the learnings, connect them to reality, and make them usable on the ground.

Avoiding the Pitfalls

When using business simulations at the executive level, we strongly recommend a robust customization process wherein the company investing in the simulation is actively involved in the design and creation of the entire simulation experience. The highest-level executive should be recruited to sponsor and provide input into the simulation experience goals and objectives. Several executives should be interviewed to discover what they think is critical regarding corporate financial imperatives and strategic directions. They should also give input into what people should take away from the experience. Other managers should be part of a steering committee that meets regularly to help create the simulation solution with the simulation provider. The steering committee should also be part of reviewing and testing the concept and beta versions of the simulation experience. This process ensures that the learning is accurate and focused on critical, relevant business issues.

This process should result in a business simulation that reflects *your company's* business models, economic engine, product development challenges, customer care-about, market segments, and competitive dynamics.

Some companies tell us: “We have used a generic simulation and it worked fine—the participants loved it, especially at the lower management levels.” Well, our answer would be: “Yes, but you cannot compare it to the impact of the customized simulation that you have not used. And have you checked with the participants who loved the generic simulation to measure the actual results in changed behavior and business results?”

We have used both generic and customized simulations and measured the difference. The power of simulating participants' real business world is unmistakable. Executives really do not have time for games; they need to simulate the real world. Imagine teaching a Boeing 747 pilot in a Cessna simulator!

Do-Reflect-Apply Process

In perfecting how to make business simulations relevant to the job, we have developed a comprehensive learning process that provides context and applicability for the simulation experience. The process has three major steps: simulation, know-how sessions, and feedback sessions.

Simulation

Executives spend about 60–70% of the learning process in the actual “cockpit” of the business simulation, formulating strategy, making decisions, and running the business in competition against other executives. The rest of the time is spent on the other two areas. Executives learn by success and failure, by good decisions and mistakes; they learn by doing.

Know-How Sessions

These group discussions address key business-specific topics, which are also customized. The know-how sessions take the powerful learnings from the business simulation experience and focus totally on how to use the learning in the real world. Topics can include issues such as shareholder value, market orientation, sustaining competitive advantage, new business creation, customer loyalty, and operational excellence. We often see senior executives use these sessions as leadership platforms where they deliver sessions appropriate to their interest and subject matter expertise. It is critical that the simulation experience and know-how sessions be integrated seamlessly, so that know-how sessions relate to the simulation experience and vice versa.

Feedback Sessions

In this part of the process, data from the simulation experience is processed and analyzed. The data is then presented to the executives so that they can reflect on the cause and effect of their decisions and learn how to correct course in the next round of simulation. The goals are two: to make sure the participants clearly understand the

relationships between their simulated decisions and market changes on the business result, and also to clarify the key learning points from the simulation.

Applying the Process

Each of the three steps of the process are customized during the development process mentioned earlier. Each part must be integrated with the others and culminate in delivering powerful and seamless learning objectives.

At the end of the process, executive teams spend time thinking about the application of the learning and crafting action plans. Often, these action plans are presented in front of the CEO or other senior corporate officers. The dialogue created during the application session is extremely rich and focused on solving challenging on-the-job business issues. We also strongly recommend the creation of a thorough follow-up process where the impact of action plans is measured and results are quantified.

Strategy Implementation

When considering business simulations as a tool to support strategy implementation and change initiatives, you want to create the following sum:

Engagement + Relevance + Applicability to the job

If you want to create this sum and generate understanding, alignment, and commitment to your company's complex strategy and initiatives, then *your only choice is to customize*. Executives will walk away feeling their time was well spent as they will have taken enormous strides in understanding:

- *Their company's* business model key success factors
- The inner workings of *their company's* economic engine
- *Their company's* customer and market dynamics
- The drivers of sustainable competitive advantage at *their company*
- How to improve *their company's* balanced scorecard

Clearly, the purpose of a customized simulation is not winning or losing a game. The purpose is to learn, practice, and apply concepts that will enable your executives to *crush the competition in the market.*

Warning

The road to hell is paved with great strategic summaries.

At one large U.S. corporation, the CEO and his team crafted a poster to explain how his strategy rested on nine major process improvements. The poster was a work of art. It explained—with arrows, diagrams, flow charting, and 8-pt. font definitions—exactly how the strategy would unlock value for the organization. The poster was brilliant and so was the CEO. So the posters were, um, posted, and executives were surprised when strategic understanding did not naturally seep into the organization. Unfortunately, nobody really understood what the posters meant, and therefore management teams would not change behavior to support the strategy. The data provided by the posters was a *change in information*, but did not lead to a *change in behavior.*

After the poster roll-out, this company turned to a different approach: using a business simulation experience to make sure executives understood the new strategy and aligned and committed themselves to it. The company used a customized simulation that captured the strategy, new business models, process improvements, financial metrics, customer satisfaction drivers, and other key issues at the company.

The simulation was crafted to create an environment in which the executives could *persuade themselves* about the criticality of the new strategy and new processes (all nine of them). The simulation gave executives an opportunity to experiment with strategy implementation, to test the impact of their newly minted processes, and to see how all the interrelationships rolled up into a new and improved company. They walked away certain about three things:

- *What* the CEO was thinking when he came up with the new strategy. (It finally makes sense!)
- *How* the new strategy and process improvements were going to benefit them. (The “what’s in it for me?” that most adults need answered when asked to change.)
- *How* each of them fit into the strategy and processes of the new company and what needed to be done immediately to effect change.

Time-to-Execution

Typically, during the chaotic time of new strategy implementation, speed is of the essence. Many companies target the “Top 250” executives and strive to immerse at least

25-50 managers per month in a three- or four-day simulation experience so that momentum and energy can be generated with regard to strategic alignment.

For example, in the last six years Texas Instruments has used business simulations to communicate corporate level strategic change twice. Both times, they put their “Top 300” executives through a customized business simulation experience. The business simulation experience rolled out to approximately 300 executives over a 10-month period. After that, the simulation workshops were taken to more than 1,500 managers and key individual contributors in different formats.

Matching Simulation Media and Audience

In *Megatrends: Ten New Directions Transforming Our Lives*, John Naisbitt states that modern society is being tugged in two different directions at once: one direction is toward “high-tech” and the other is toward “high-touch.” We all know what high-tech is. Naisbitt considers “high-touch” those areas of life that will always require face-to-face human interaction, no matter how far technology advances. For example, take that paragon of high-tech advancement, the pneumatic massage recliner with pummeling, concussive rubber rollers inside. We don’t know about you, but for our money, those creepy chairs will never take the place of a licensed massage therapist and a good ol’ massage table (no matter how much doubling of technology and instances of Moore’s Law we are subjected to as a species). When it comes to massage, give us high-touch, not high-tech.

How does this apply to business simulations? There are two ways to distribute a business simulation experience: in the classroom (high-touch), or over the Internet (high-tech). Strategic executive education will, as far out into the future as we can imagine, always take place in the classroom. No matter how advanced Web-based simulations become (and we create and innovate many types of Web-based business simulations), they will most likely not be appropriate for executive audiences. Why? The one major, overarching reason for delivering strategic executive education in the high-touch classroom is peer networking. The other major reason is that how to lead a business from an executive's perspective is a subject with a complexity that requires human interaction for effective learning.

We have found that peer networking remains the cornerstone of a great executive business simulation experience. Even the most impressive business simulation is ineffective without the conversations, dialogue, and peer networking created by putting 25 executives face-to-face in a classroom.

High-Tech Versus High Touch: The Balancing Act

For individual contributors in the organization, where the goal is to transfer financial literacy and the fundamentals of business acumen, customized board simulations and Web-based simulations are a low-cost and effective tool. They can provide a powerful and memorable self-paced learning experience. To take Web-based simulations beyond knowledge transfer and toward higher-level skill development, however, once again you need the high-touch aspect of peer networking and dialogue.

Toward this end, some networked simulations can serve as “virtual tournaments” where non-executive managers can interact with each other via virtual classrooms over the Web—thus creating a harmonious balance between high-tech and high-touch.

Meanwhile, board simulations are very effective for individual contributors and relatively inexpensive to customize. They can be delivered in a classroom in a cost-effective way without requiring technology knowledge or equipment, providing an opportunity to learn hands-on.

A Whole New World: Integrating Business Simulations and Leadership

One of our long-time collaborators, Susan Burnett, who formerly led Hewlett Packard’s Workforce Development, said to us a few years ago, “You know, historically, business acumen and leadership have always been treated as separate competencies with very little overlap. But, if you think about it, you really can’t have business acumen without leadership, and you really can’t have leadership without business acumen. We should do something about that.”

Susan designed a cutting-edge business simulation experience that combines the best of a customized business simulation with the best of leadership development.

Prior to arriving at the 4.5-day customized business simulation experience, the 25 executives complete 360° assessments and meet with an executive coach. Upon their arrival at the simulation event, each team of five executives is assigned a full-time executive coach who will sit with them in their breakout room and observe them struggling with the trials and tribulations of running a highly customized simulation of

their company. As in real life, they don't have enough time or enough data, and they don't necessarily know their colleagues sitting across the table. All this, plus the competitive pressure of the simulation, allows the coaches to, as the inimitable Rocky Kimball, President and Founder of Action Learning Associates, puts it, "Catch the executives in the act of being themselves." In other words, any of the executives' poor leadership or teaming habits will surface during the intensive simulation experience. More important, the executive coach can then debrief the executive on what was observed and provide guidance and corrective action.

This business acumen and leadership simulation is so highly integrated that we have been able to record some very interesting results. We have scored the executives on their business performance in the simulation (scoring based on market share, revenue, and profitability) and the executive coaches score the teams on a battery of leadership attributes. Our scores and the coaching scores are tabulated separately. At the end of each simulation experience, we have found a 1:1 correlation between the teams' leadership and teaming attributes and their business performance in the simulation. The teams with the best leadership and teaming attributes have the highest business performance scores. The teams with the worst leadership and teaming attributes have the lowest business performance scores. These results have repeated many times.

This data confirms what Susan said: "You can't have business acumen without leadership, and you can't have leadership without business acumen."

Hallelujah!

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