

# Business simulation fuels executive development

*Program focuses on the business and strategic priorities of future managers*

**S**ix executives got the news during a briefing. They had been chosen to ascend the corporate ladder – to join the senior-leadership team, responsible for the overall success of their large, integrated energy company.

During their initial meeting, team members recognized the complexity of the task ahead. Managing the company's entire business – from exploration to the end consumer – would be a stretch for the group.

A large number of external factors – including the geotechnical and geopolitical risks of securing new reserves, volatile energy prices and increasing competition from national oil companies – posed challenges to effective execution. Additionally, the leadership team would have to consider internal factors such as making investments in the latest drilling technologies, protecting the safety of employees, engaging in environmental stewardship and improving the reliability of the company's far-flung operations.

The company faced many difficult challenges to maintain its status as a leader in the industry. To keep its competitive edge, it teamed up with a business-simulation specialist to develop a program that would accelerate the development of high-potential leaders.

The 30 leaders selected formed the cohort, or team, who participated in the advanced-management program. This executive-development program was designed to develop the high-potential leaders through a realistic business simulation that was customized to the company's business and strategic priorities.

## **Collaboration is the key to success**

Led by the chief executive, the team started by undertaking a thorough analysis of the business, its markets, new resource opportunities, customers and competition. Through much discussion and, at times, heated debate, team members collaborated to define strategic priorities that they all agreed would differentiate their company from the competition, provide access to new conventional and unconventional resources and deliver top-tier shareholder returns.

A company spokesman stated: "We quickly realized that we wanted to focus on enterprise value creation, so we agreed to collaborate as a team across business units and not just try to optimize our own functional pieces."

The team was ready to execute the strategy. Given high expectations and intense time pressure, team members decided to tackle the execution by working sequentially along the company's value chain.

## **With a limited capital budget, members of the management team were forced to make tough trade-off decisions.**

They started with upstream operations – exploration and production. The president of global upstream led the strategy implementation for this important area. The team debated the trade-offs of investing in deep-water versus shale exploration and prioritized the various geopolitical options for gaining access to new reserves.

The decision was made to focus primarily on unconventional shale resources in a developed market and rapidly to bring resources to production. Simultaneously, the group members chose also to pursue acreage in a largely untapped basin in a country challenged by corruption, civil war, instability and violence. For this high-stakes bet, they realized that the government would demand heavy investments in local infrastructure and training of locals to do the work.

Additionally, existing oil wells in the base business required attention and investment. Production in existing wells was declining at 15 per cent a year. With a limited capital budget, members of the management team were forced to make tough trade-off decisions. Led by the executive vice-president of base business, they had to choose between acquiring new leases or investing in additional infill wells and developing and applying new advanced recovery technologies to manage existing reservoirs more effectively and minimize the decline.

The downstream business – transportation, refining and distribution – faced declining reserves of sweet crude oil, the key raw material in the refining process. To preserve margins and remain competitive, the company would have to make phased significant investments cost-effectively to process heavier crudes. The group collectively concluded that, while this was an expensive upgrade, it was necessary.

### **All in a day's work (or four in this case)**

At the end of the first business cycle, the team found that its investment in enhanced oil-recovery techniques paid off and generated significant cash. Furthermore, with the skilled leadership of the chief finance officer, the company maintained financial strength and flexibility through disciplined investment and monetizing resources with the highest value.

Despite this success, several direct competitors won more leases and reported larger reserves on their books. Nevertheless, the additional cash generation from the base business enabled the company to increase its capital budget and created the financial capacity to take on future projects to build a well-balanced portfolio.

An additional challenge arose that required immediate management attention. With an increase in workforce retirements, the company found its project portfolio was limited not only by capital constraints but also by human-capital limitations. The vice-president of planning and HR would have to replace an aging workforce over the coming cycle. The challenges continued for the team and tensions were heightening.

As the team members prepared their annual investor presentation, they wondered how their results would be received. They had developed a strategy for delivering enterprise value creation and successfully led it into action through teamwork and collaboration. Over the recent period, the group quickly gained a greater appreciation of the complexity of managing at the enterprise level and achieved a deep understanding of effective strategy

execution. The executives were pleased, but knew more efficient execution could be achieved over the next cycle.

### Business simulation helps to develop high-potential leaders

Fortunately, it did not take the six team members an entire six-year business cycle of experience to come to these realizations. Instead, it all happened in four days. An optimized business simulation accelerated the experience and enabled the group to practise strategy execution in a risk-free, competitive environment.

The internal and external factors discussed in the simulation reflect the critical issues the company faces. The decisions and trade-offs made by the team are real choices that the senior-management team grapples with on a daily basis. Within this context, the team members were able to make decisions from the vantage point of the company's senior executives and learned great strategy implementation first-hand so that they could ultimately take ownership and effectively execute the company strategy back on the job.

Upon completion of three intense simulation rounds run over two days, participant teams locked themselves away with results in hand to prepare their investor presentation to the analyst community. Their work was driven by the recognition that a positive reception from the investment community could reduce the company's cost of capital and provide future competitive advantage.

Concluding the exercise was the crucial investor presentation to some "analysts" with significant industry experience – the company's senior executives. The real-life executive group was charged with observing and commenting on the presentations by all the high-potential executive-development program groups. The senior executives would make two buy, one hold and two sell recommendations. During the evening graduation dinner, all the teams reflected on the learning that had occurred and their greater experience in executive-level decision-making.

"The program enabled participants to think more strategically, broadened their enterprise perspectives, built financial acumen and provided an external focus and understanding of geopolitical decisions, competitive dynamics and customer and investor expectations, said one senior executive."

"Most importantly, they had the opportunity to practise and learn in the context of the company's business and strategic priorities".

### A growing trend to use business simulations

Business simulations can be an important enabler of strategy execution. The program enabled participants to experience interdependencies, execute best practice and operate the levers available to optimize their company's key performance indicators. The simulation created a sense of ownership for the strategy, ultimately motivating action back on the job.

A recent survey conducted by the Economist Intelligence Unit revealed that customized business simulations are projected to grow faster than any other formal learning method. Some 11 per cent of senior leaders indicate that business simulations are used in their organization today, and 26 per cent anticipate that this approach will be used in five years'

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time – a 140 per cent increase. The study also revealed that expert-led lectures are expected to decline by 32 per cent over the next five years. The most common learning and development method used to develop business skills today, the expert-led lecture, is not considered to be highly effective.

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 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 significantly to increase their future investments in customized simulation-based learning initiatives.

### Note

David Pollitt, *Human Resource Management International Digest* Editor, wrote this article.

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