

■ Scenario planning



Ready for anything

Scenario planning is the astute strategic manager's weapon in the battle for business supremacy in a rapidly changing economic environment, says Square Peg International's **Doug Ross**

Think Alexander the Great, Napoleon, Montgomery – real-world strategists who have used anticipatory planning techniques – battle scenarios – to arm themselves for victory.

Using the same principles, scenario planning is a strategic management tool used by organisations to make flexible long-term plans for the future.

Only those businesses ready to anticipate and evolve in a rapidly changing world can hope to keep ahead of the competition and win. With this in mind, policy makers use scenario planning to predict hidden weaknesses and inflexibilities in their organisations and their business methods. With these exposed well in advance, a company's limitations and their impact can be

avoided or reduced far more easily than if they came to light in an emergency.

THE PROCESS

The initial step is an environmental analysis. Is an organisation fit to cope with today's economic climate and what factors in this environment contribute to business success? Next comes scenario planning in which possible changes in the environment and their impact are explored. Then follows decision-making on corporate strategy to plan the achievement of future organisational success, based on the scenarios devised.

SCENARIO CREATION

In his book *On Writing*, best-selling novelist Stephen King describes his inspiration for

new stories beginning with a seed question: 'What if?' From this, a story grows and develops. This is the basis of scenario planning.

The scenario planning technique posits a range of possible futures, varying from positive to negative; predictable to surprising. It demands that the group assembled should imagine creative responses, which in the initial stages go well beyond considering responses to business issues.

It is essential that the leader encourages both structured and innovative thinking and that this thinking is consistent with the context in which it takes place. American management writer, Peter Drucker said: "The greatest danger in times of turbulence is not the turbulence – it is to act with yesterday's logic."

Scenarios combine known facts about the future (demographics, geography, military, political, industrial) with plausible alternatives (social, technical, economic, political). The latter are trends or driving forces. Brainstorming known facts and the driving forces affecting the future organisation will produce the initial scenario material. Initially, several mini scenarios may be created.

Royal Dutch/Shell began a successful programme of scenario planning in response to dramatic financial changes in the 1970s when investments were shaken by the driving forces of environmentalism and the OPEC Cartel. Its formula involves boiling the mini scenarios down to between two and four complementary scenarios, and the trend among scenario planners has been to adopt this practice.

Identifying two or three 'containers' into which to fit the mini scenarios is a challenging process, requiring much debate. This debate, however, often highlights fundamental issues facing the organisation, and the participants come to an understanding of what the most important driving forces for change may be. With this understanding, they will be equipped to deal with those changes should they arise in the future.

FOUR CLASSIC SCENARIOS

Square Peg has identified the following as the classic types of scenarios generated by a scenario planning process:

1. MOST LIKELY

Here, trends unfold according to our best estimates. Things may still change, because events don't evolve in a continuous way.

2. SURPRISE-FREE

In this case, existing values and trends are maintained so that we face no 'unchartered waters'. This is often a good basis to develop, if only for comparative purposes.

3. OPTIMISTIC

This is the 'dream' scenario.

4. PESSIMISTIC

In this scenario, everything goes wrong subject to the usual constraint that all the elements must be internally consistent.

“A scenario planning venture must have the support of all participants”

Funding decisions, costs, policy decisions, competition, all go against us.

BEWARE THE PITFALLS

1. MOTIVATION

In Square Peg's experience, there are usually no surprises resulting from a scenario planning workshop. Many managers haven't yet formulated plans for dealing with predictable future events, much less the unpredictable. And indeed why should they? Their performance is measured on today's, not tomorrow's, results. Short-term scenario planning may prepare managers' minds to think about the business, but the practice of scenario planning may not be very effective unless there are long-term incentives in it for them, for example, their pensions' value being tied to the organisation's success. It is vital that managers are motivated to invest in scenario planning for the long term, even if their forecasts don't involve them on 'their watch'.

2. PARTICIPANT COMMITMENT

A scenario planning venture must have the full support of all participants. Everyone must be on board and prepared to contribute creatively and constructively, free of the thinking constraints of the immediate business environment. Ingredients for success include: open minds, thinking outside the box, opportunities to speak freely, honesty, creativity, innovation.

Here is a list of 'killer phrases' listed from an actual Square Peg pre-planning session with a client (obviously these issued were thoroughly ironed out before the scenario planning workshop!):

- 'We have always done it that way.'
- 'But is it in the plan?'
- 'I'll try, but...'
- 'Systems don't support it.'
- 'Where's the competing business case?'
- 'Why?' instead of 'Why not?'

- 'We've never done that before!'
 - 'We don't have the resources.'
 - 'It's not part of our "core".'
- Enough said!

THE TALK REQUIRES ACTION

Michael Porter, professor at Harvard Business School, said in 1985: "If you cannot predict the future, then by speculating on a variety of them, you might ... hit upon the right one." Scenario planning is a proactive, rather than an academic enterprise. There is no point in speculating on the future unless a course of action is considered. Scenarios act as springboards for strategic decisions on necessary action should one of the forecasts happen. Once scenarios have been devised, the issues arising from them must be identified and possible actions discussed.

Before the participants of a scenario planning session disperse, a team should be appointed to monitor the organisation and its functioning in the environment on a regular basis. These champions should give regular updates concerning the status of the organisation in the light of changing events. As part of corporate planning procedure, management must be encouraged to constantly challenge their thinking processes, ready to respond quickly to environmental changes.

One always hopes for the best, but the words of a British Foreign Office Researcher from 1903-1950 are a warning in an unpredictable world: "Year after year the worriers and fritters would come to me with awful predictions of the outbreak of war. I denied it each time. I was only wrong twice."

About the author: Doug Ross is managing director of Square Peg International and specialises in the people side of change focusing on mergers, acquisitions, joint ventures and cultural alignment. For more information, visit www.squarepeg.com