

SCENARIO PLANNING

In our conversations with business leaders, we often talk about what their future leaders must be able to do to help their organizations survive and grow in a time of increasing change, uncertainty and ambiguity. Beyond industry knowledge, specific product or service savvy and operational know-how, there is a dawning realization that something else is also required. Eamonn Kelly, CEO of Global Business Network (GBN), aptly coins this new capacity ‘mastery of uncertainty.’¹

He highlights a range of essential capabilities that could lead to this mastery:

- Staying calm in the face of overwhelming disorder, confusion and ambiguity,
- Seeking out multiple and conflicting views, while being aware of one’s biases and blind spots,
- Focusing on the future, the emergent as well as the planned,
- Embracing risk-taking,
- Learning rapidly from failure, and
- Being open, flexible and even, on occasion, playful.

Given our discussion with business leaders, the question is no longer whether this is a critical capacity, but a question of how we can help build it, in ourselves and in our people. For some time now, organizations have attempted to develop this capacity through mentoring, rotating roles across disciplines, exposure to strategic planning, etc. There are also things that we do as consulting partners with client organizations, such as running large-scale simulations, building learning communities and coaching, all aiming to build this ‘mastery of uncertainty.’

However, another approach to building the capacity to think about and respond to an uncertain future is slowly gaining traction. This approach is called scenario planning.

Scenario planning is a rigorous method of thinking strategically and systematically about possible futures – even divergent futures – for organizations. Participants follow a series of structured steps and build plausible narratives, or scenarios, that incorporate key trends, forces and factors into plots. These plots become frames through which decision-makers can anticipate how certain decisions will play out. The ultimate usefulness of scenario planning is not in trying to predict the future, but rather to think purposefully about how relevant and uncertain external factors may unfold and, most importantly, how subsequent actions and reactions could help avoid nasty surprises while capitalizing on new opportunities.

Scenario planning as a distinct methodology has its roots in military organizations following the Second World War, when military intelligence wanted to think through future possibilities that far exceeded their current world views. In the 1970s, Royal Dutch/Shell adapted the process and used it to help make critical decisions regarding corporate strategy. Today, the Global Business Network and others use this method extensively with organizations, helping them “think down a few paths” as they face a rapidly changing environment. The practice has developed to such an extent that considerable resources are now available to those who want to learn the art and science of scenario planning.

Scenario planning can be done a few different ways. One of the more popular methods, the deductive approach, consists of these steps:

1. Capture a key question, usually a significant question about the business that has a long-term horizon. While scenario building works for more general areas of inquiry too, it is most useful to choose a relevant question – ensuring focus and consistency in the scenarios.
2. Brainstorm all the trends, driving forces and factors that will shape the business environment in the chosen time horizon. Typical categories of factors include Social, Technological, Economic, Environmental and Political. Several trends and factors may be well known (demographic numbers), but many will be highly uncertain and unpredictable.
3. The uncertain and relevant forces are prioritized and for this method, two such trends/forces are chosen for their deemed high importance and unpredictability.
4. These two most critical forces become the axes of a 2X2 scenario matrix.
5. A look at each quadrant and the logic created by the mix of the two forces creates four qualitatively different scenarios. These are then fleshed out into full narratives, incorporating some of the previously identified external factors.

With all scenario-building methods, the value is in having a set of diverse people challenge each other and collectively create the scenarios. The process can take several weeks to several months. Once completed, they should be shared widely and used to test ideas and plans for strategic decisions such as how to grow, what to invest in, acquisitions or mergers, where to expand, assessing future markets, or considering what’s next. The discussions that happen throughout the process are one of the significant outcomes of this process – in addition to the possible external landscapes that emerge.

A well-done scenario-building process will build organizational leadership capacity to manage and thrive in complexity. It demands external scanning, mental modeling and assumption testing, collaboration, long-term “what-if” thinking and perspective shifting – all critical skills for effective leadership in today’s world. The work of scenario building develops and rewards a way of thinking and operating that increases mastery of uncertainty. It also forces a move away from navel-gazing, entrenched perspective-taking, short-term myopia, wishful thinking and helplessness.

Scenario planning is increasingly being used by organizations to develop more realistic, rigorous and useful strategic plans while at the same time developing the leadership abilities of all those involved in the process. It requires integration of quantitative analysis and wisdom; of objectivity and certainty with collective insight and intuition; of exploiting the known with exploring the unknown. This ability to integrate different modes of thinking and attention is exactly how we will become masters of uncertainty.

An article such as this can in no way do justice to a topic as complex and rich as scenario planning. If you’re interested in learning more and exploring its possible application in your organization, please join us for a complimentary webinar June 17, 2009. Refer to our website www.refineryleadership.com for details on the upcoming webinar.

¹Kelly, E. (2006) *The Tall Order of Taming Change*. Reprinted from *The Financial Times*, March 17, 2009 edition. Retrieved on April 10, 2009 from http://www.gbn.com/consulting/article_details.php?id=21&breadcrumb=ideas

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