

Introduction: Scenario planning is a metaphor-rich narrative designed to help you consider alternative, plausible futures. Within this fourth Case Study we explore the concepts surrounding scenario planning, expose some of the myths, identify the differences between scenario planning and forecasting and uncover several processes to create scenario plans for your situation.

The video for this Case Study features Oliver Freeman, a leading figure in scenario planning internationally. Born and educated in England, Oliver has led many international organizations successfully through scenario planning projects and his insights on the 'how' and 'why' of scenario planning will prove valuable for your learning.

Definition: Anchored in creativity and intuition, Scenario Planning is a strategy tool used to discover potential future environments in order to understand how today's strategic decisions will have an impact on an organization in times to come. The key elements in scenario planning are "creative thinking, imagination, an informal methodology and the use of qualitative, subjective information."ⁱ

Scenario planning does not predict the future; rather, it considers the complete scope of likely forces that might have an impact on an organization. These may be intellectual, natural, social, political, economic, cultural or technological. By developing stories that describe how the future may unfold, the method attempts to formulate strategic directions with which effectively to navigate these forces.

Scenario planning differs from conventional strategy methodologies in several ways. First, scenario planning does not rely on purely rational exercises such as traditional forecasting or market research; instead, "it's an intuitive means of identifying and reflecting upon uncertainties that companies face."ⁱⁱ Whilst utilizing aspects of traditional forecasting, scenarios are written as stories in order to bring forth a more personal relationship between the method, the outcomes and the proponents.

Second, scenario planning is not meant to be an accurate science; it does not produce forecasts. You cannot predict the

Oliver Freeman:

Oliver Freeman is recognized as one of the leading global proponents of scenario planning. Having guided many international organizations through the scenario planning programs of Global Business Network, Oliver is acknowledged as a truly innovative thinker at the forefront of strategy.

With an extensive background in publishing, Oliver has conducted a multitude of conferences, seminars and training programs in strategy and scenario planning. With an increasing focus on workshop facilitation and consulting, Oliver has developed an intensive two-day course on Scenario Planning & Strategic Leadership to assist organizations in realigning their long-term vision with current strategy theory and scenario planning principles.

Recent scenario planning projects have been successfully undertaken with the Australian Business Foundation's Alternative Futures project, Queensland Cotton, Australian Bush Heritage Fund, Rockhampton Enterprise, NRMA, Pacific Power International, Telstra and the University of Canberra.

Oliver has an MA from the University of Oxford and an MA from the University of Essex. He is past chairman of Publish Australia, the Copyright Agency Limited and the current chairman of UNSW Press. He is past Vice President of the Australian Publishers Association.

Oliver Freeman on Scenario Planning:

“The future does not lie at the end of a trend line” states Oliver Freeman, “We use a definition of strategy as a pathway to the future by helping us to achieve sustainable congruence between our organization and the environments in which it may have to operate”.

Q.U.E.S.T is their structured journey to uncover future scenarios.

STAGE 1 – The primary stage is to determine the scope and frame the issues or QUestions for which scenarios are to be created.

STAGE 2 – Next is the broad future Environment where the scenario questions are to occur. At this stage it is essential to challenge existing thought paradigms and consider alternative yet plausible situations that recognize the likely pressures acting on the organization. Here the method seeks to explore factors such as Ideas, Nature, Society, Politics, Economics, Culture, and Technology.

STAGE 3 – With a strong understanding of the questions to be faced and the issues and influences likely, build the Scenarios of your alternative futures. Create rich storyboards; narratives that help you understand “what if?”

STAGE 4 – Finally, begin to understand the implications for current strategy that these Transformative scenarios identify. Are you heading in the right direction? Have you considered all options?

future; while the future is uncertain and unknowable, scenario planning helps you visualize it. Past trends are only valid in relatively stable environments and, while they can give consideration to potential major changes they will only do so if you include them.

Theoretical Background: Scenario planning has been practiced since the 1960s and 1970s but it wasn’t until Royal Dutch Shell utilized scenarios that they came into prominence. Shell’s success in navigating the 1973 OPEC oil crisis was, in part, due to their use of scenario planning that helped to identify innovative strategies. To this day, scenario planning remains a vital strategy tool at Royal Dutch Shell.

The Rand Corporation has been credited as the originators of scenario planning. Originally developed to explore potential Cold War outcomes, scenarios incorporated aspects of the evolution of financial planning, politics and Hollywood script writing. At the time, strategic management only existed within the realms of long-range planning and, as such, scenarios were indeed ground-breaking.ⁱⁱⁱ

Scenarios evolved as concerns grew regarding the accuracy of forecasting. It was argued that the reliance on historical trends and past experience was no true indicator of the future nor did it account for the potential of major changes in the external environment.

Today, scenario planning has evolved into a key component of strategy. The practice takes many forms, conducted to investigate futures whether in 50 or one years’ time, exercises for public institutions and private firms, localized issues or global concerns.

Many large international organizations tend to use scenario planning to help identify threats, while others utilize it more to drive innovation and new ideas. In this environment of rapid technological change some firms use scenario planning to help manage potential market opportunities.

Scenario Planning in Practice: The point of scenario planning is to open up to and consider the variety of potential futures that you face. In doing so, it identifies decisions you can make now. The key to developing a successful scenario planning exercise is the questions you ask; not “what will happen?” but rather, “what will we do if this happens?”

Scenarios are ideal for organizations that face complex issues and challenging environments as they allow you to visualize contingency scenarios that attempt to address the complexities that surround you.

Developing scenarios allows you to test your strategies against alternative futures, to consider the actions taken by you, your organization and, also, your competitors. In creating a range of potential future situations that attempt to consider the full range of uncertainties, organizations develop action plans that can be enacted should those futures eventuate. Additionally, these scenarios act as guideposts to help keep you on the right direction.

One of the key benefits of scenarios is that they directly include decision-makers in learning and understanding the forces that shape the future. Such a process helps to broaden the contextual perspectives of managers.

In practice, it is often beneficial to conduct analysis at differing levels and create complementary scenarios. As to an ideal process, some proponents recommend starting inside the organization and expanding out, while others begin at the macro level and then narrow their focus to the organization. One consistent feature though is the development of two scenarios. When three scenarios are produced, “there is a tendency for the optimistic, pessimistic and compromise ‘most likely’ stories to be the result,”^{iv} with the compromise story usually chosen at the detriment to the overall process.

Study Questions:

To answer the following questions you will need to utilize the video interview with interviewee, this Case Study and the listed reading resources.

1. How is scenario planning different to other approaches of strategy development?
2. “Scenarios can’t predict the future, so what’s the point?” Critically evaluate this statement.
3. How can external advisors help to create scenarios? What is the advantage of having external perspectives included in the process?
4. Why is the process of developing scenarios often more important than the actual outcome?
5. Pick an industry context and discuss the major trends and forces that would drive the future of business in that industry.
6. Discuss the issue of availability and quality of the information that you base scenarios on.
7. Discuss whether scenario planning is suitable for any kind of organization. Can you think of organizations that are more likely to benefit from scenario planning than others?
8. If you had to assemble a team of people to develop scenarios for an organization, what mix of people would you choose? What are the skills you think are necessary?

Further Reading:

We recommend that you supplement this Case Study with further reading from the following resources as well as your own research.

Bain & Company: Management Tools, Scenario and Contingency Planning;

Future Studio: Full-text Scenario Sets;
www.futurestudio.org/full-text-scenarios.htm

Global Business Network; www.gbn.com

Goodwin P, and Wright G, 2001, "Enhancing Strategy Evaluation In Scenario Planning: A Role For Decision Analysis", *Journal of Management Studies*, vol. 38, no.1.

McKiernan, P. (2008) "Scenario Planning", pp. 1391-1393 of S. R. Clegg and J. R. Bailey (eds) *International Encyclopaedia of Organization Studies*, Thousand Oaks, CA, Sage.

Shell Energy Scenarios to 2050;

www.futurehouse.com

Schoemaker P, 1993, "Multiple Scenario Development: Its Conceptual And Behavioral Foundation", *Strategic Management Journal*, vol. 14, no. 3

Schoemaker P, 1995, "Scenario Planning: A Tool for Strategic Thinking", *Sloan Management Review*, vol. 36, no. 2.

Challenges with Scenario Planning: While scenarios are very effective in identifying credible futurist frameworks for organizations, they do involve certain challenges and risks. Scenario planning, in order to be effective, requires inputs from a broad spectrum of the internal and external environments. Such a situation requires the allocation of considerable organizational resources. Many organizations are put off by this aspect and additionally, scenarios require an approach that is often contradictory to the skills favored in and by business leaders. The analytical, rational and systematic thinking preferred in and by many managers does not typically create imaginative, plausible and consistent scenarios. Also, organizational cultures that promote cohesiveness and alignment frequently do not promote the diversity of thought required for effective scenarios.

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- i. Verity J, 2003, "Scenario Planning as a Strategy Technique", *European Business Journal*, vol. 15, no. 4, pp. 185-195.
 - ii. Harvard Management Update, 2006, "Scenario Planning Reconsidered", Harvard Business School Publishing
 - iii. Furrer O, Thomas H, and Goussevskaia A, 2008, "The Structure and Evolution of the Strategic Management Field: A Content Analysis of 26 years of Strategic Management Research", *International Journal of Management Reviews*, vol. 10, no. 1, pp. 1-23.
 - iv. Verity J, 2003, "Scenario Planning as a Strategy Technique", *European Business Journal*, vol. 15, no. 4, pp. 185-195.