



Unleashing the power of scenario planning in your organization

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"They let the shit hit the fan, and then they made a plan"
- Jimmy Buffet, "A lot to Drink About"

You are #1 in the world. Your products are known for their quality and safety. People are so addicted to your device it is nicknamed the "crackberry". Your company operates hundreds of highly technical sites around the world. Your revenues are in the billions of dollars selling products the world cannot live without.

***You are on the top of the world. What could possibly go wrong?
If you are Toyota, Blackberry or BP – a lot!***

You may not operate on the same scale as these three companies, but events can be just as damaging to your future.

The impact on shareholders, stakeholders, employees, the environment, suppliers, customers and innocent bystanders can range from inconvenience to catastrophic.

Do you really understand the implications of decisions on your organization? Have you truly considered the various scenarios around those decisions? The quick answer is "of course we have". The newspapers are full of stories to prove that you have not.

Start with a plan

Most organizations recognize the need for crisis plans. These plans are built to respond to such things as natural disasters, terrorism, major staff disruptions, technological breakdowns or a financial crunch. In spite of these being very basic crisis plans, the daily news carries stories of organizations that have not been prepared. In some cases, they had a crisis plan on paper, but it was sitting on a shelf and was useless when they needed it.

When a crisis hits, you do not want to *start considering options*. An immediate, well thought out response can save your company.

Having a crisis response is not enough and it is not the purpose of this article. The purpose is to make scenario planning part of your strategic plan.

Every organization needs a strategic plan. If you are trying to get by without one, you will simply not be successful and will fall victim to the inevitable surprises every organization encounters. Check out other articles in this series to get you started on your plan.

You are probably saying that Toyota, Blackberry and BP had strategic plans and look what happened. They did have plans and for the most part those plans were working just fine. What is missing?

First, let's be clear. Toyota is a great company and makes great cars. They earned the reputation they have for quality and safety. BP did not get to the heights they have by being ineffective and reckless. I still have a blackberry and I love it.

In all three cases, the companies suffered from the common phenomenon of believing in their own invincibility and the arrogance that accompanies it. Success can make you blind to your weaknesses. If you do not stay humble as an organization and as leaders, the world will quickly remind you. The financial crisis humbled many an infallible manager.

We can't plan for everything

Accidents happen. It's absolutely true that we can't plan for everything. We are not very good at predicting unlikely events. For an excellent book, check out *The Black Swan* by Nassim Nicholas Taleb. A better approach is to focus on the *consequences* of any extreme events. This approach allows for the development of strategies to withstand or avoid any impacts.

By adding a rigorous scenario planning process to your strategic planning, you can ensure you know and understand as many potential outcomes as possible.

Could BP have foreseen the possibility of an explosion and oil leaking into the ocean? Of course. Was it likely to happen? No, there are thousands of wells operating successfully around the world. Those successes led to some fatally bad decisions.

The most critical question in your strategic planning, scenario planning and day-to-day operations must be: **"What if?"** Remember that these processes must be led by the Board and senior management. If they are

not engaged in asking the tough questions, do not expect anyone else in the organization to do it.

Many articles and case studies have been written about the BP disaster in the Gulf of Mexico. The bottom line in most reviews is that they dropped the ball on a number of decision points. In each of those cases a simple “What if?” would have helped. For example: “What if?” our efforts to cut costs on a drilling rig leads to a leak? What would be the impact? These very basic questions likely were never asked. If they were considered, and the answer was, “it is a risk we are willing to take”. That leads to another set of very serious legal and ethical questions that will be asked.

From reports on the spill, it appears that safety violations and other technical concerns were well known – but not to senior management. If true, it would be an extreme example of senior management not wanting to know and not asking key questions. The end result was a choice made between short term cost savings and the health of the organization.

There was a report of a Toyota executive e-mail claiming credit for saving millions by not moving to correct the faulty gas pedal. They saved millions to lose billions in both dollars and reputation. Is your organization being penny wise and dollar foolish?

We don't need negative scenarios

Optimism is important and must be the foundation of any strategic plan. This article advocates a balance between optimism, realism and pessimism. Most organizations (and individuals) are afraid to talk about what can go wrong because they fear appearing negative. If your company is announcing a major merger, it is not wise to suggest publicly that the synergies expected are unlikely to work out. In fact, in 75% of mergers the synergies do not work out as expected. Before making the announcement, a great “What if?” would be: “What if?” we do not get the estimated 25% synergy saving as expected? Does the merger still make sense? If the answer is yes, then go for it.

In scenario planning, optimism is great – but it is even better if combined with a splash of realism and a dash of pessimism.

- **Brian Rhiness**

The law of expected surprises

A common trap for managers is the belief they can rely on managing through any unforeseen problems. They may get through it, but at what cost to the organization? They may also face multiple surprises at the

same time, which compounds the problem. Recent examples show that the firm may survive, but responsible managers do not. Most managers will claim they want no surprises, but do not create an environment that keeps unexpected surprises to a minimum.

A robust scenario planning process implemented with strategic planning will greatly reduce the number of unforeseen problems. We want only ***expected surprises***. These are events that we acknowledge *can happen*, and that we can clearly answer what we are doing throughout the organization *to ensure they do not happen*.

As a car manufacturer you can expect that you will have recalls. What are you doing at every level of the organization to ensure that it will not happen or to minimize the impact? It needs to become a ***cultural response***. Implement the law of expected surprises in your organization.

If you are pumping oil from deep in the ocean, an *expected surprise* would be a leak. Had BP senior management considered a worst case scenario – an unstoppable leak – they would not have chosen the cheapest route as the course. They also would have had a crisis response ready to go that would have focussed on such things as quickly stopping the leak, rapid clean up and how to effectively respond to the media circus. Why did we need this crisis to *start* talking about how to both stop such a leak and clean it up? A small amount of critical foresight will reduce a large amount of hindsight.

“What if” we had a gusher?

Watch for signals. BP apparently had hundreds of safety violations, while their competitors had few. That is a big, red flag “*What if?*” question for the board and senior managers. What if those violations are a sign of bigger culture and management issues?

There are at least one dozen major factory fires in the world every single day. Do you know where your supplier’s supplies come from? How might a fire, tsunami or earthquake affect you?

Implement a Law of Expected Surprises *at every level* of your organization. Ask the tough questions inside your organization and avoid doing it in front of television cameras.

Encourage and embrace skeptics throughout the organization to improve the quality of discussions and decisions. Skeptics are your best friends because they do not get caught up in the “group think” and “go along to get along” diseases that infect many organizations.

In many cases you will need outside help to shift the culture and provide a safe environment for free-flowing discussions that will implement the Law of Expected Surprises throughout your organization. This law must be implemented first at the board and senior management team level. It sends a powerful message to all staff and partner organizations.

Scenario planning in action

We are ready to do scenario planning and enforce the Law of Expected Surprises. Where do we start? With a good strategic planning process. Scenario planning without a strategic plan is a waste of time. We recommend the **Strategic Thinking Simplicity** platform for your planning process. It is based on systems thinking which leading organizations have found to be the most effective foundation for results-based planning. *Look for other articles in this series on these topics.*

At each step of the **Strategic Thinking Simplicity** model, you can dramatically increase your results by adding scenario-based questions to the conversations. Here's how it works:

Future environmental scan

The environmental scan provides the first opportunity to review all things that could affect the organization, positively or negatively, in the future. Remember to involve as many staff, stakeholders and partners as practical in the process. People support what they help create, and you can get valuable insights from interested parties outside your normal comfort zone.

Look at the future trends, projections, opportunities and risks that face you in the coming years in the following areas:

- | | |
|------------------------|--------------|
| • Industry | • Technology |
| • Stakeholders | • Financial |
| • Political/Regulatory | • Natural |
| • Organization | • Social |
| • Customers | • Reputation |
| • Competition | • Others |

The key questions you must ask are: What is the trend? So, what does that mean to our organization? Now what do we need to do to prepare for it?

This is your first, and best, place to get a head start on potential issues. Do not settle for data, general surveys and generic reports – dig deep!

Push the discussion outside the comfort zones. We can only speculate on how much different BlackBerry would look today if they had entertained a more open, honest and visionary discussion of their customer's future needs, technology direction and the competition. The information and opinions were out there – it appears they made a deliberate decision not to look or to ignore them. Does your organization have any signs of institutional blindness?

Do not be constrained by the environmental scan. Use it as a time to ask, “*What if?*” for both challenges and opportunities. Turn challenges on their head and ask how they can be turned into opportunities, new products or new lines of business.

The environmental scan must be an *ongoing process*. All staff must be focussed on the industry, competitors, customers and anything that may affect the organization. They are your very best early warning system. Waiting until next year's update will be too late. Never farm the environmental scan out to an outside agency. No one knows your organization, your industry or your potential opportunities better than your own people. It can however be very beneficial to bring in some outside facilitation and experts to push your thinking to the necessary discomfort levels.

Future state

The future state place in the **Strategic Thinking Simplicity** model is where we really start planning by establishing our desired outcomes. What is our vision for the future of the organization? What is our mission and what core values differentiate us?

We strongly encourage organizations to get a “*Helicopter View*” of the situation at this stage. Detach yourself from daily circumstances and look from 10,000 feet, at what is really going on around you.

The need for well defined and clear desired outcomes demands each proposed outcome be tested against all known and potential surprises. Optimism needs to be balanced with some really blunt “*What ifs?*” If the proposed outcome passes the toughest “*What ifs?*”, you have a winner. Resist the temptation to fall back on general statements to avoid difficult discussions. “We will grow market share” is not an outcome – it is a cop out. This is an ideal place to have team members take turns acting as skeptics. Keep at it until you have a simple, clear outcome statement that can be easily communicated and understood.

Success measures

How will we know when we get there? A dynamic measurement system is vital. Direct linkage to the outcomes ensures that we continue to measure the right things. Again, we must ask: “*What if?*” something changes? Are we still measuring the right things? What gets measured gets done, so make sure it is the right measure.

Current state

In the current state assessment, we are looking at our organization as it sits today. What resources, structures and cultures exist? A key question at this stage is: “*What if?*” the current structures, culture and resources cannot (or will not) support the desired outcomes?

This is the major reason that change initiatives and strategic plans fail. Many organizations do not seriously consider the cultural and structural barriers that exist in their organizations. Nowhere in the strategic planning process are skeptics more important than here. There are an unlimited number of “*What if?*” questions that must be asked and answered at this stage. Do not attempt to skip over the tough discussions and decisions.

It is difficult for organizations to be constructively critical of their current state. A lot of egos, budgets, bonuses and careers are involved. It is vital for leaders to show the way and put everything (including their egos) on the table.

Action Bridge

The final step in the **Strategic Thinking Simplicity** model is the action bridge. From previous steps we know where we want to be and where we are today. The action bridge provides the core strategies and actions that fill the gap between the current state and the desired outcomes (the future).

The strategies really answer the question, “How do we get there from here?” Strategies provide the clarity of direction and the activities to move the team to action. Ensure your strategy statements are clear and concise – one sentence. We like to start this sentence with “We will” It is an action statement. The action points under each strategy statement also need to be very specific. These will be the projects, programs, initiatives and steps taken by the organization to successfully completed the strategy and move us toward our desired outcomes. These actions will be given to individuals, so clarity is vital. Also, they must be linked to those individual’s performance contracts. This is where we build the implementation phase from. It is also where the

rubber really hits the road. An effective strategic plan is 20% planning and 80% execution. A great plan with poor execution is a failure.

Contingency plans

In planning, the words *“scenario”* and *“contingency”* have been used interchangeably. Your organization may already have contingency plans. Don’t confuse the terms. *You need both*. Start with a review of potential scenarios, and then build contingencies, to address key problem areas. If you have only one supplier of a key component, a possible scenario would be if the supply is interrupted for any reason. The contingency would be to find an alternate supply source – *before* you need it.

Rigorous scenario review

If the organization structures and culture clash with the plan, the plan will lose every time. A common problem for organizations, especially if they are in trouble, is to have an extremely ambitious list of activities for the first year of the new plan. They forget that they have ongoing activities, set structures and possibly a culture resistant to change.

At this stage, a very rigorous scenario review is essential. All strategies must be tested against known factors and potential *“expected surprises”*. We are building strategies that are flexible enough to adjust quickly to unknown forces. The team needs to dig deep with *“What if?”* questions.

Summary

The rigorous use of *“What if?”* at all parts of the Strategic Thinking Simplicity process is the most effective way of improving your organization’s chances of success.

As leaders we need to call *“STOP”* at all stages of the planning process and encourage *“What if?”* conversations. We need to test the thinking and prevent groupthink, extreme optimism and unrealistic expectations. This may initially increase the overall planning time, but it is time well spent. Once it becomes part of the ongoing planning process it will save time and dramatically improve results.

Strategic planning has been given a bad rap because of the high incidence of failures. There are too many ill-thought-out strategies and actions. We can improve the success rate by adding rigorous scenario planning to the process.

Unleash the power of scenario planning in your organization.

Check out our other articles for best practices, tips and tools to help your organization become an industry leader at strategic management

www.RhinessGroup.com

Simplicity – Clarity – Action - Results

